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ABSTRACT

This publication presents the findings of a commission that evaluated the current division of responsibilities for financing postsecondary education and makes recommendations for restructuring national policy in this area. Following an executive summary in section I, section II analyzes the policy concerns of college cost, accessibility, and financial responsibility. Section III presents the commission's recommendations concerning the federal role in financing postsecondary education as well as the roles of state governments, institutions, the private sector, and philanthropists. The key theme of the recommendations is that the partnership among governments, institutions and individuals in the financing of postsecondary education is an essential concept that must represent the foundation of future financing policy; that such partnership requires each participant to contribute to the system's success; and that the federal government is in the best position to encourage the partnership by promoting a greater sense of shared responsibility for financing postsecondary education. Specific proposals include a Student's Total Education Package, simplifying the loan system, a Community Service Incentive Program, and tax-incentives to save for college. Appendixes contain estimates of cost savings and new expenditures resulting from the recommendations, commission member biographies, a schedule of commission meetings, and 82 references. (JB)

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FINAL REPORT

NATIONAL COMMISSION ON RESPONSIBILITIES
FOR FINANCING POSTSECONDARY EDUCATION

MAKING COLLEGE AFFORDABLE AGAIN

FINAL REPORT

NATIONAL COMMISSION ON RESPONSIBILITIES
FOR FINANCING POSTSECONDARY EDUCATION

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LETTER OF TRANSMITTAL

Final Report of the National Commission on Responsibilities for Financing Postsecondary Education.

Mr. President
Mr. President Pro Tempore of the Senate
Mr. Speaker of the United States House of Representatives

The National Commission on Responsibilities for Financing Postsecondary Education, authorized under P.L. 99–498, is pleased to submit this Final Report.

The Commission was conceived to address one of the most troubling issues facing American families: paying for college. The mandate of the Commission, as spelled out in the law, is to reexamine the nature and operation of the current financing system and to develop recommendations for its restructuring as necessary.

This Final Report represents the culmination of extensive research and analysis of the issues facing higher education financing today. Throughout its two-year life span, the Commission met nearly a dozen times, conducted five regional hearings, sponsored several expert seminars, and held a national symposium. The testimony from the hearings, combined with staff research and the efforts of research teams at the University of Vermont and University of California, Los Angeles, provided the Commission with a thorough understanding of the problems that plague the present system and the range of options for the future.

The findings and recommendations contained in this report are the result of a dedicated bipartisan effort to improve the future of higher education in the United States. While we recognize that our system has long been regarded as the world's finest, we view this Commission and its work as not only a means of retaining that position but also a commitment to providing affordable postsecondary education for future generations.

As we present this Final Report of the National Commission on Responsibilities for Financing Postsecondary Education, we encourage you to work hard to implement the programs and policies that are contained herein. It is only through the dedication and cooperation of our leaders that a brighter future for higher education, and our nation, can be achieved.

Sincerely,

Senator Paula Hawkins	Dr. William Cotter	Dr. Leslie Koltai
Thomas A. Butts	Curtis M. Dunbar	Peter M. Leslie
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FEBRUARY 1993

MISSION STATEMENT

The National Commission on Responsibilities for Financing Postsecondary Education is charged with determining the need for a structural change in the current division of responsibilities for financing postsecondary education and making recommendations to the President and the United States Congress by February of 1993. The Commission will evaluate economic, demographic, educational, and institutional information and analyze the current and projected responsibilities for financing held by families, institutions, individuals, governments, businesses, and other sectors.

The Commission will be concerned with the growing gap between poor Americans and the rest of society as it reflects on the ability of our country to meet the post-industrial challenges of the decades which lie ahead, as well as on the ability of the middle-income families to contribute to the cost of their children's higher education. Although postsecondary education is only one component of the relief needed, it is a crucial element in the skills race.

The Commission will use the following assumptions in its work plan.

- America's political institutions presuppose an educated electorate.
- America's economy requires a well-trained, disciplined workforce.
- America's problems (economic, social, ecological, geopolitical) are becoming more and more complex.
- America's needs as a post-agrarian, post-industrial economy are changing.
- Citizens need to control their own lives.

Our goals embrace the vision of an America in which every person is socially, civically, and economically competitive to his or her greatest capacity. This means we seek to educate a population which has the educational competencies sufficient to fulfill four essential aspects of citizenry. We need economic citizens who are productive; informed citizens who can participate intelligently and knowledgeably in our governmental affairs; citizen soldiers who provide for our national defense; and citizens who have purposeful control over their own lives.

Within the context of these assumptions and goals, the Commission will analyze the current federal policy for financing postsecondary education, evaluate its effects, and recommend changes as necessary. Several beliefs will guide our inquiry.

- The policy of the United States should promote the above-mentioned goals.
- The federal policy must address the issue of affordability as one growing barrier to postsecondary education, especially where national priorities are at risk; e.g., a qualified workforce that is ethnically diverse.
- The federal policy must encourage greater successful involvement by all.
- The nation cannot continue to waste desperately needed human resources while driving up social costs.

Seen in this perspective, the Commission understands its work to be about preserving and enhancing the national security of the United States of America through the strengthening of its human resources with appropriate, affordable postsecondary education.

Note: This mission statement was adopted by the Commission on May 5, 1991.

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FOREWORD

American higher education has ranked as the unchallenged leader in the world for much of the 20th century. There are good reasons why the nation has earned this respect. In addition to being the best in the world in basic research and scientific achievement, American postsecondary institutions generally are regarded as the most effective in advancing the social and economic conditions of individuals. Some of the indicators of this success:

- America stands out among its international peers in the participation of its citizens in higher education. Nearly three times the percentage of Americans attend college compared with Japan, the United Kingdom, Sweden, and other nations;
- Higher education has had a positive effect on employment and income levels. College graduates are much less likely to face unemployment and, on average, earn nearly twice as much per month as high school graduates;
- Surveys show that college graduates consistently rate the quality of their lives higher than those who did not attend college;
- American higher education is one of the nation's most successful export industries, with hundreds of thousands of students from other nations enrolling annually in American colleges and universities.

Despite these accomplishments, however, there is growing anxiety that the American system of higher education may lose its place of prominence. These concerns are echoed by a variety of observers, including everyday citizens, higher education leaders, and state and federal officials. Many of these concerns involve one of the most complicated, and least understood, aspects of the system: its financing.

Senator James Jeffords (R–VT), the author of the legislation creating the Commission, was one of many observers who addressed this topic at a symposium sponsored by the Commission in June of 1992. Explaining why he sought to create the Commission and the importance of its

charge to the national interest, Senator Jeffords noted, "Without affordable postsecondary education, without national support for meaningful access for able students to take advantage of higher education opportunities, we will not be able to accomplish any of the objectives that we strive for as a nation and a leader of nations. Without the capacity to significantly expand the intellectual and personal frontiers of the American citizenry, we will be forever limited by the economic inequalities that exist among people in our country."

This philosophy about the importance to the nation of financing postsecondary education has been a guiding force in the work of this Commission. Virtually all the evidence available to us suggests that the burdens of paying for college are increasing for all Americans. Based on current trends, America will face dire economic and social consequences if only an ever smaller percentage of students and families can afford a postsecondary education. The failure to help the growing number of disenfranchised, undereducated citizens will have profound effects on society, the workforce, industry and services, international competitiveness, and even national security.

This National Commission, which first met in February of 1991, has had as its central goal one simple idea: to make college affordable again. All of our research, public hearings, and deliberations have revolved around this basic, but fundamentally important, goal. As the Commission's Mission Statement points out: "The Commission understands its work to be about preserving and enhancing the national security of the United States of America through the strengthening of its human resources with appropriate, affordable postsecondary education."

To make college affordable again, we must make changes at virtually all levels and involve all of the major participants in the postsecondary financing system. This report details our recommendations for change. But despite our fundamental belief in the need for major change, this report is not a repudiation of all that exists in the current system. In fact, we have much to be proud of in looking at the various federal, state, institutional and other programs now in operation.

We have made it our goal to produce recommendations that address long-term needs—recommendations that can take our nation into the 21st century and beyond. Nevertheless, we also sought recommendations that are practical and readily achieved. *We believe the nation can fully*

implement every one of the recommendations in this report by the end of the decade at a reasonable cost and to the great benefit of our country.

In seeking ways to make college affordable again, we cast a wide net in search of the most comprehensive and efficient vehicles to make college a reality for all interested and able American citizens. Our activities included five regional public hearings held around the country, a national symposium, bi-monthly meetings, and numerous research papers, projects, and reports.

We did not limit our work only to federal policies or student financial aid. Instead, we studied and analyzed the roles and responsibilities of each of the major financing system participants—from families and students to the federal government, states, institutions, business and industry, and philanthropy.

There are, however, important distinctions in the scope of the Commission's charge. Our primary task was to explore ways to share and distribute responsibility for tuition and related costs among these system participants. To that end, the essential focus of our work was on students, and the costs they face in paying for a postsecondary education.

Because of this unique perspective, the Commission did not examine other issues in the "financing" of postsecondary education—such as capital costs and the rapidly deteriorating infrastructure of higher education buildings, facilities, and equipment. Nor have we addressed the critical areas of research funding or the institutional factors that lead to tuition increases. While all of these topics are important, our central legislative charge has been to focus on students—the consumers of postsecondary education.

The main body of the report is divided into two sections. The first discusses policy concerns that led to the development of the Commission's recommendations and examines the current operation of the higher education financing system. The second section describes the Commission's recommendations for the future and discusses the respective roles to be played by each of the major participants in the system. An Appendix includes an analysis of the likely cost savings and expenditures resulting from implementation of the Commission's recommendations.

ACKNOWLEDGEMENTS

The National Commission on Responsibilities for Financing Postsecondary Education would like to express its gratitude to the many institutions, organizations, and individuals who played a critical role in the Commission's work.

In particular, we would like to thank the following institutions and organizations for their efforts:

The University of California, Los Angeles, the University of Vermont, and George Mason University for their support of Commission research and analysis efforts;

Boston College, Miami-Dade Community College, Northwestern University, the University of California, Los Angeles, and Wichita State University for hosting the regional hearings of the Commission;

The American Association of State Colleges and Universities, the American Council on Education, the Council for Advancement and Support of Education, and the National Association of Independent Colleges and Universities for assisting in various Commission activities;

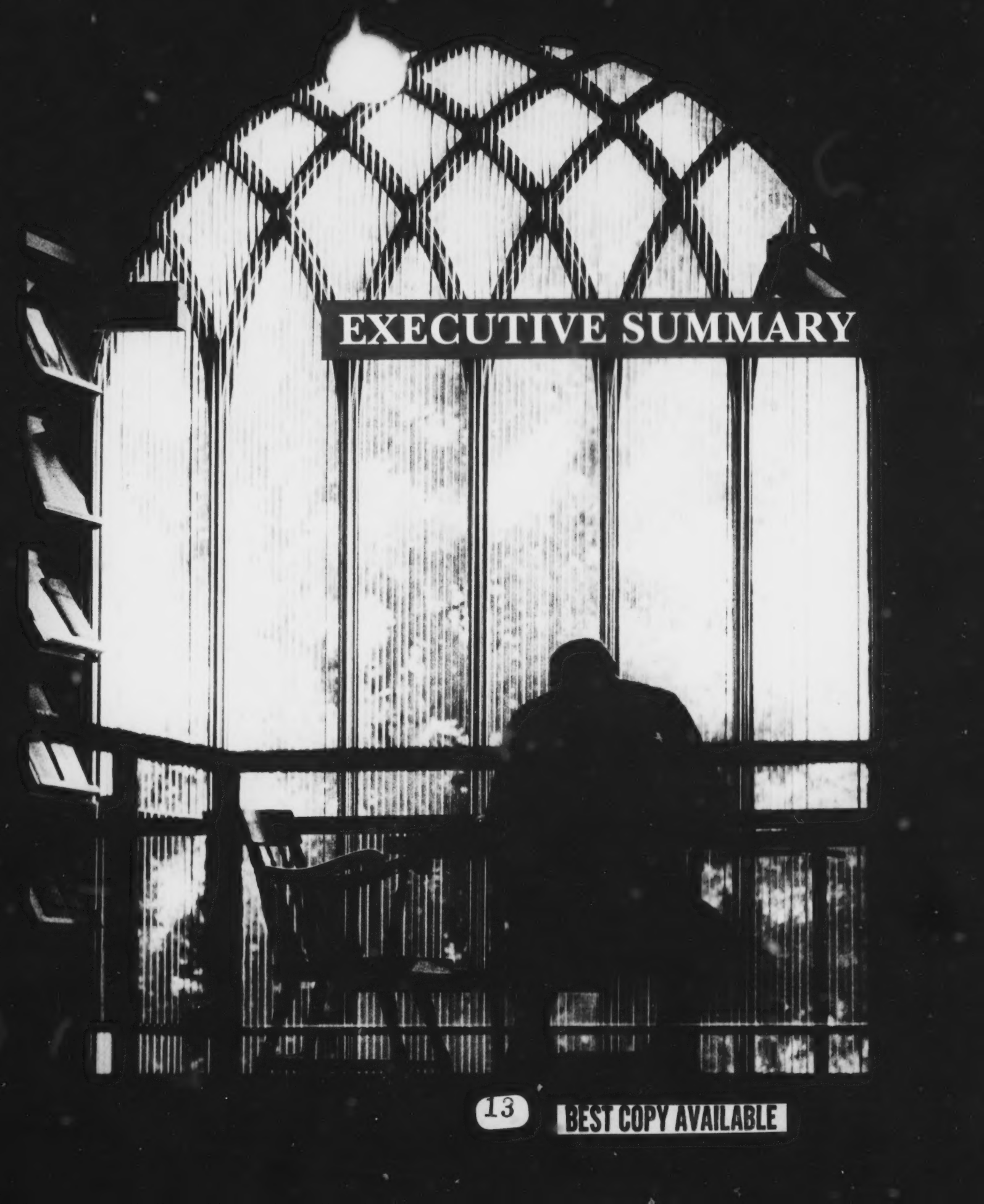
The Advisory Committee on Student Financial Assistance for its cooperation in our joint efforts;

The Ford Foundation and The Coleman Foundation for their support of the Commission's seminars and national symposium; and

The General Services Administration and Nancy Low & Associates for providing logistical and technical support.

Of the many people who assisted the Commission, we would like to highlight the efforts of the following individuals: Senator James Jeffords, Melora Sundt, Arthur Hauptman, Peter Smith, Darryl Greer, Ted Hollander, Martin Kramer, Ismael Ramirez-Soto, James Mingle, Catherine Milton, Lawrence Gold, Ruth Bletzinger, David Roose, Michael McPherson, James Honan, David Breneman, Joseph Moore, Thomas Mortenson, Pamela Devitt, Robert Shireman, Kim Wallace, Terri Williams, Clifford Adelman, Roger Stough, Edward Delaney, David McLaughlin, Charles Dervarics, Eileen O'Brien, Holly Hexter, Gil Kline, and Katherine Merritt, as well as all of the people who testified before the Commission and participated in the seminars and the national symposium.

Finally, we would like to acknowledge the outstanding efforts of the small but dedicated full-time staff of the Commission who worked with Executive Director Jamie Merisotis—Maureen Hill, Colleen O'Brien, and Julie Goldman.



EXECUTIVE SUMMARY

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I. EXECUTIVE SUMMARY

With the end of the Cold War, Americans are turning their attention to a more subtle yet equally complex issue—economic security. To compete effectively in this global economy, the nation needs a top-flight, cost-effective higher education system with quality programs and access for all interested and able individuals.

For decades, America has offered college and university programs that rank among the best in the world. But their escalating cost now threatens to set up new, impenetrable barriers for many Americans.

For example:

- Paying for college now ranks as one of the most costly investments for American families, second only to buying a home;
- During the 1980s, the cost of attending college increased 126 percent, twice the rate of inflation for the decade;
- State budget cuts are causing sizable tuition increases at public institutions, increases that have outpaced those in the traditionally higher-priced private institutions.

For the 21st century, America needs a well-educated, well-trained workforce capable of competing with our international neighbors. Yet at this very critical juncture, we believe there is a crisis in the nation's post-secondary education finance system—one that poses a major risk to the very fabric of higher education.

At the federal level, fiscal pressures have cut or limited the growth of many important financial aid programs, leaving students and their parents unsure about the future. Among the hardest hit are low- and middle-income students. Since 1980, the purchasing power of federal grants has steadily eroded as grant levels have failed to keep pace with tuition increases. Mounting costs have forced many of these students to take out costly loans that carry heavy repayment burdens.

These financial pressures also affect the outlook of families as they plan to pay for college. Recent public opinion polls show that the dream of sending a child to college—once so important for many parents—is growing more elusive every year. This is largely because families have increasingly shouldered more of the burden for financing higher education as the federal commitment has eroded.

In addition, the complexity and paperwork of the available student

aid programs often undermines their worthy goals. Many students and parents are confused by a system with a multitude of loan and grant programs—each with its own complex eligibility and application requirements.

Yet even as a college education appears to slip out of reach for some American families, the need to maintain and improve access to higher education grows in importance. The Commission realizes that the country cannot afford to subsidize individuals who drop out of school, who are unemployed, underemployed, or who fail to understand the basic principles of our democratic institutions and political system. We must make every effort to reach all citizens and include every individual as an essential part of the nation's future—or risk the consequences of having to support those who fall behind.

Nationwide, higher rates of child poverty and single-parent families also will require a new level of commitment from government, education, and the private sector. Getting a college education is an essential opportunity for those left behind. In short, America must be prepared to work with children from low- and middle-income families from their early years through high school and postsecondary education.

Since February 1991, the nine members of this Commission have examined many options to improve the affordability of American higher education. Based on our discussions, we believe that the partnership among governments, institutions, and individuals in the financing of postsecondary education is an essential concept that must represent the foundation of future financing policy. Such a partnership requires each participant to contribute to the system's success. Given its historical role in helping to guide national policy, the federal government is in the best position to encourage this partnership. It can do this by promoting a greater sense of shared responsibility for financing postsecondary education among the system's various participants.

The most productive step the federal government can take in strengthening the postsecondary education financing partnership is to lead by example. We believe the federal government bears a rudimentary responsibility to lay the groundwork for a new national compact that will improve the affordability of higher education for all Americans. By leading the way in this new partnership, the federal government will recapture the national leadership it once held in this area.

To help make college affordable again, we recommend that the following integrated package of policies and programs be implemented:

Make federal student aid a reliable and comprehensible source of college assistance for all Americans by developing a new concept called the Student's Total Education Package (STEP), which links to a national norm the total amount of federal aid any full-time undergraduate college student may receive annually.

Currently, students receive varying amounts of aid based on many different programs, their particular rules and their complex need-based formulas. This intricate system leaves many students and families confused about their eligibility—and intimidated by the potential cost of college.

Under STEP, all full-time undergraduate college students would be eligible to receive the same *amount* of federal aid—but the *type* of aid they receive would vary widely depending on their own financial needs and the cost of attendance.

In general, the poorest student would receive an aid package based primarily on grants, work-study, and subsidized loans. The student from the middle-income family would receive a mix of subsidized and unsubsidized loans, work-study, and grants. The student from the affluent family would not be eligible for subsidized aid but still could receive an unsubsidized loan (described below).

The federal government would set the STEP based on the weighted national average per-student expenditure at all four-year institutions. In current dollars the STEP would be approximately $14,000; this amount would be adjusted annually. Less than full-time students would receive a pro-rated amount.

The government, higher education institutions, and the general media could distribute and publicize this information to prospective students, cutting away much of the confusion about their prospects for receiving assistance.

It is important to emphasize that the STEP concept reflects the *federal* commitment to student assistance. In many cases states and institutions will offer their own financial aid resources to students independent of the federal contribution.

Remove uncertainty from the Pell Grant program by ensuring that all eligible students receive grants at levels authorized by federal law and by tying future maximum grant levels to what students pay for college.

In the 1992 Higher Education Act reauthorization, both Congress and the President acknowledged the critical need to increase grants for low- and middle-income students to meet national education goals. In that law, Congress authorized a maximum Pell Grant of $3,700 for the 1993-94 school year. But later, under budget pressures, Congress actually appropriated only enough for a $2,300 maximum grant—a cut of $100 from the previous year.

This widening gap between authorized and actual funding of the Pell Grant causes uncertainty in the system and limits access to postsecondary education for needy students. Further, current actual grant levels represent a major erosion in the federal commitment to access, particularly since 1980.

We urge Congress and the President to ensure that students receive grants at amounts fully authorized by law. The federal government should view this grant level as an unbreakable promise that promotes greater opportunities for postsecondary education in our nation.

Equally as important, we believe that future maximum Pell Grant award levels should be set at an amount equal to 75 percent of the national median cost of attendance (tuition, fees, room and board) at public four-year colleges. This would create a rational basis for future maximum awards and restore the purchasing power of Pell Grants that has been lost in the last decade.

To further improve access and simplify the federal aid system, we also recommend the following steps:

- Consolidate the Federal Supplemental Educational Opportunity Grant Program (SEOG) with the Pell Grant program, providing that our recommendation for removing uncertainty from the Pell program is implemented.
- Convert the Federal Perkins Loan Program to a grant program by depositing all loan collections into an institutional endowment fund that could be invested and used to provide grants for low- and middle-income students.

Simplify the complex student loan system by offering a single program that makes direct loans to students and parents and provides "user friendly" repayment options.

The current federal loan system contains five components—all with different names, requirements and financial limits. We are calling for a much more streamlined program with only three components: a subsidized student loan program (where interest does not accrue during the time the student is in school); an unsubsidized student loan program (where interest accrues throughout the life of the loan); and an unsubsidized parent loan program.

Students could pay back loans under two options: income-contingent repayment, with payments based on a percentage of the borrower's income, and conventional repayment, with payments spread out at regular intervals over a fixed number of years. Those who fall behind on conventional repayments would move automatically to an income-contingent system—thereby offering students a "second chance" to fulfill their obligations and, hopefully, avoid default.

Each component program would receive capital through Treasury borrowing, eliminating the current system with its heavy government subsidies for banks and guarantee agencies. The Internal Revenue Service also could act as a loan servicing and collection agency for income-contingent loans, thereby permitting borrowers to remit payments through regular income tax withholding.

Create a Community Service Incentive Program to promote student service in exchange for loan forgiveness, thereby fostering the dual goals of scholarship and citizenship.

The government has a responsibility to foster a sense of community values and partnership among individuals, states, communities and the private sector. To this end, both undergraduate and graduate students should have the option to work and serve their communities in exchange for financial aid benefits.

Students could participate in this incentive program for up to three years, with 20 percent of the loan principal forgiven for every year of service. In limited instances, the program also could offer complete loan

forgiveness for those performing five years of service in certain designated "critical need" areas. In addition, students would accrue no interest costs during their time of service. Eligible programs would be determined by guidelines established by the federal Commission on National and Community Service.

This program also will work well in a system where income-contingent repayment is an option for borrowers. Under an income-contingent repayment system, borrowers choosing lower paying, public service-type jobs would not be unduly burdened by fixed student loan payments, since these payments would be based on income and not on the amount borrowed. We believe this will be a powerful incentive for borrowers to choose careers in teaching, law enforcement, or any of numerous other areas where the need for skilled college graduates is essential. Thus the Community Service Incentive Program would complement the public service incentives provided through an income-contingent repayment option.

Create new tax-related incentives to encourage college savings and increase postsecondary education opportunities, such as allowing penalty-free withdrawals from Individual Retirement Accounts to pay for college expenses and removing the income eligibility ceiling on the use of Series EE U.S. Savings Bonds for education.

We call for allowing penalty-free withdrawals from IRAs to pay for higher education expenses, a plan similar to one proposed by Senators Lloyd Bentsen (D-TX) and William Roth (R-DE) in 1992. Under that proposal, qualified higher education expenses—tuition, fees, books, supplies, and equipment—could be paid for via early withdrawal from an IRA. Such funds could pay for the college education of the taxpayer, his or her spouse, the taxpayer's child, or the taxpayer's grandchild.

The Commission also supports expanding the use of U.S. Savings Bonds for college to all family income levels, promoting increased savings through a national advertising campaign, and implementing Tax Code provisions that: 1) allow students and parents to deduct interest on loans used for education; 2) allow deductions for employer-provided educational assistance; and 3) encourage charitable giving of gifts of appreciated property to higher education institutions.

In addition to these recommendations, the Commission also endorses a variety of other new ideas to improve the student financial aid sys-

tem and make college more affordable. Specifically, we call on the federal government to:

- Focus greater resources on graduate and professional study by repealing the taxation of scholarships and fellowships, offering graduate students greater flexibility under federal student loan programs, and funding programs under Title IX of the Higher Education Act.

- Eliminate fraud and abuse by strengthening accountability measures, repairing structural problems in student aid programs and providing the necessary resources to implement existing accountability policies.

- Establish a federal interagency council to coordinate student aid and other human resource benefits, so that government can reduce paperwork and promote more consistent eligibility requirements among programs.

- Create and distribute computer software that estimates the components of a student's total financial aid package, thereby improving the flow of information about eligibility. Students and their families could gain easy access to these programs through wide distribution to schools or school guidance counselors.

- Implement the National Early Intervention Scholarship and Partnership Program, which was established in the 1992 Higher Education Amendments to provide matching funds to the states for creating and expanding initiatives for at-risk students.

We also view agencies and individuals outside Washington, DC, as key partners in the drive to improve opportunities in postsecondary education. State governments, the private sector, philanthropic organizations, and individual colleges and universities all must increase their vigilance in support of higher education and affordability.

For their part, states should institute a collaborative accountability process with centralized planning to help promote the quality and affordability of higher education. Higher education institutions need to undertake comprehensive strategic planning as well, mindful of their educational mission and their duty to control cost increases.

The Commission also recommends that states conduct their own independent studies of "high tuition, high aid" policies, one of the hottest topics in higher education finance. Under this concept, states would withdraw some of their funding for public colleges and instead focus on student aid subsidies for lower income students. If tuition would increase, so would financial aid—possibly making college more affordable for needy students.

We believe that a headlong rush into "high tuition, high aid" as a national strategy would be a mistake, particularly in the current economic climate. During the past two years, at least 10 states have raised tuitions but reduced student aid. Despite states' best intentions, we believe the potential for damaging consequences—such as "high tuition, low aid"—could jeopardize access to higher education.

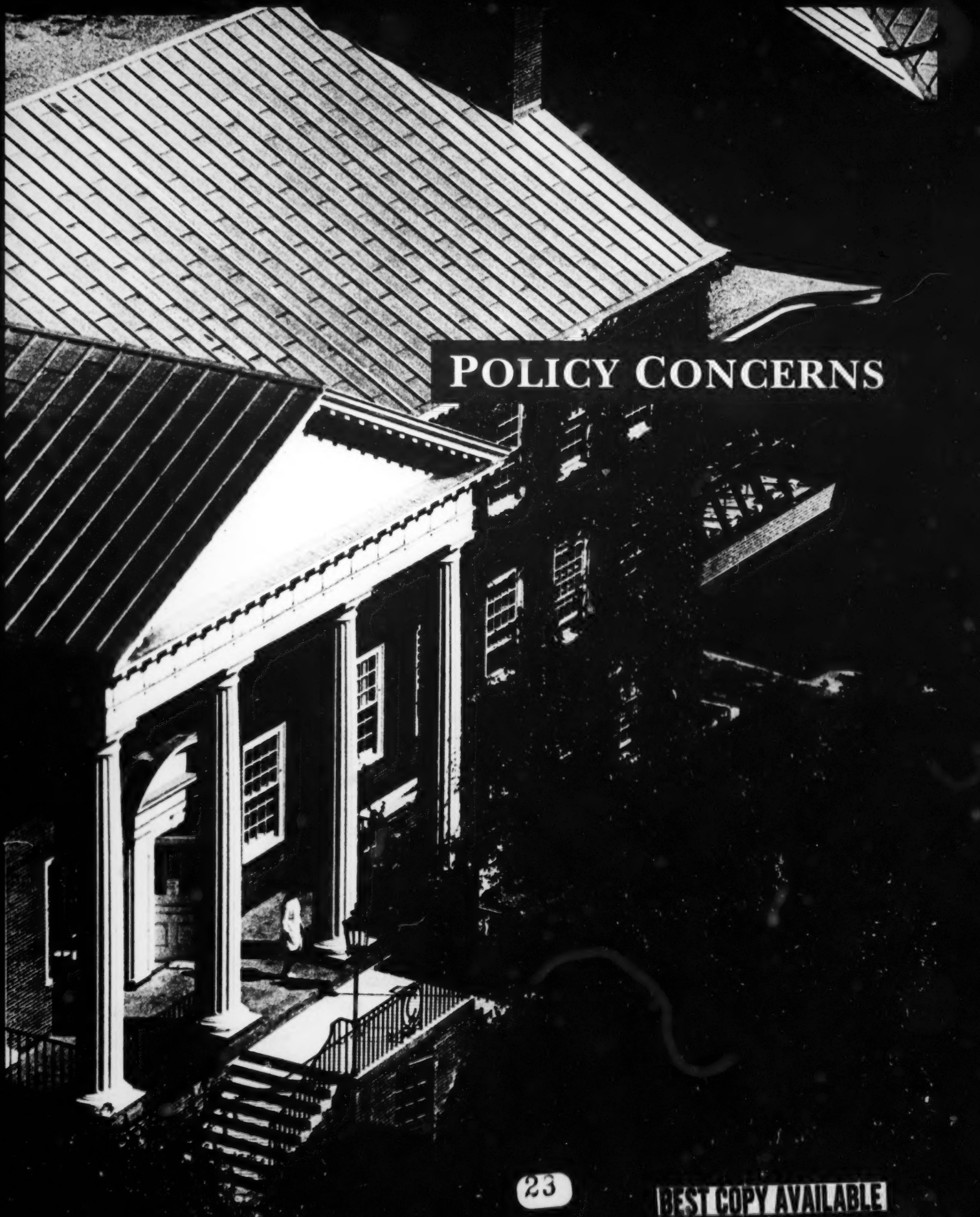
Whatever their decision, states should have the freedom to evaluate this issue free from federal involvement. We recommend, however, that all states—regardless of their decision—increase their own financial aid programs to match any increases in attendance costs. We also believe states and institutions bear a fundamental responsibility to set tuitions at levels that reflect a college's mission and the type of student it serves.

Elsewhere in the finance system, we believe that philanthropy should play an important role by continuing to support higher education as an important national resource. We also believe that corporate philanthropy should expand efforts to promote access, particularly for low- and middle-income students. Another key player, the private sector, must promote postsecondary education and training that strengthens the nation's competitiveness and furthers democratic principles.

* * *

The economic, environmental, and social challenges ahead will require cooperation among all sectors of American society—from government and industry to individuals and families. We need both the courage to dream and the will to change.

Amid global uncertainty, the nation must stand firm behind its goal of offering educational opportunity to all interested and able Americans. Only by making college affordable can our students succeed and our nation prosper during the next decade—and into the 21st century.



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II. POLICY CONCERNS

America has entered a new and challenging era. The military tensions and superpower confrontations of the Cold War have ended, but a series of new, equally daunting challenges have taken their place. These new demands on the nation include economic rivalries with our global neighbors, troubling issues in the environment, and continued concern about the ravaging effects of poverty in our inner cities. As America prepares for the 21st century, the need for intelligent policy and action is urgent.

Each of these challenges will require the United States to respond vigorously and decisively. As a nation, we need to marshal our available resources and promote productivity, flexibility, innovation, creativity, and wisdom. Above all, we must set goals and develop a national consensus to achieve them.

Our proud history suggests that forging this new consensus will be a difficult task. Our diverse outlooks and perspectives frequently lead us to conflicting ideas about how best to pursue a course for the future. We need only follow the debates of any major political campaign to understand the diversity of views offered for the years ahead.

As we approach the year 2000, however, there is one policy concern that unites all Americans. While leaders may differ on the need to invest in infrastructure, defense or health care, virtually every legitimate proposal for America's resurgence lists education as the foundation of our future strength. This view is shared by all sectors of society and by leaders of all political viewpoints, from liberal to conservative and from Democrat to Republican and Independent.

Among all other issues, education is the most essential component of our long-term investment in the vitality of the nation. Without an increasingly educated citizenry, we will not upgrade the skills of our workforce or improve the quality of our lives in a competitive global economy. In the new era of economic, environmental, and social challenges, what we learn—and how we use it—are the nation's most important concerns.

America will pay an enormous price if it fails to improve its education system. Plainly stated, the country cannot afford to subsidize individuals who drop out of school, who are unemployed, underemployed, or who fail to understand the basic principles of our democratic institutions and political system. We must make every effort to reach all citizens and

EDUCATION: THE NATIONAL CONSENSUS

It seems that virtually everyone who has an interest in public policy has pointed to the need for greater investment in education. A report released in October of 1992 by the Strengthening of America Commission, co-chaired by Senators Sam Nunn (D-GA) and Pete Domenici (R-NM), is indicative of this universal support for education. The report proclaims, "The key component of a public investment strategy is investment in human resources. Strong schools, strong workforce training programs, and strong families are the components of a strong educational system. ... We cannot compete in a global economy with a low-skilled, low-wage workforce. Without supportive, involved families, we will play constant catch-up with children ill-prepared to learn. Government, the education community, and business must be partners in a long-term effort to revitalize the American educational system."

include every individual as an essential part of the nation's future—or risk the consequences of having to support those who fall behind.

Much of the discussion about the future of education in the United States has focused on the elementary and secondary levels. While we know basic needs exist from preschool to high school, we firmly believe the nation must recognize education as a continuous web that incorporates all levels—from preschool through graduate school. The education needs of a changing America will require much greater skills and knowledge than are currently available through 12th grade. We must develop and utilize our talent as a nation and make education a lifelong process, not one with a rigidly-defined beginning and end.

Americans must recognize that investment in postsecondary education—that is, any program beyond the core of essential learning taught in high school—is an important national priority. In our increasingly competitive world, education beyond the high school level is imperative. Making this investment now will ensure that we can meet the challenges of this new, complex era. Our national standard of living and quality of life depend on this investment, even as concerns grow about the affordability of a college education.

THE COSTS OF FAILURE

What are the costs of not improving the education level of the American citizenry? Daryl Grisham, President of the Parker House Sausage Company in Chicago, made the following observation in testimony before the Commission: "It seems to me that the social costs of no education or miseducation may very well exceed the finite costs of a sound, competitive education. When prioritizing national resources, it may prove a worthwhile exercise to really sum up the total dollar costs now triggered by hundreds of thousands of young people ensnared in the criminal justice system, teenage pregnancies, school dropouts, youth gangs, and drug addiction, and contrast this loss of talent and treasure with what might be viewed as an alternative 'preventive maintenance' approach: a solid education. I think we might demonstrate that a strategic investment in good education is a relative bargain."

THE COST OF COLLEGE

Paying for college represents one of the most fundamental concerns of the average American family. A 1991 Gallup Poll showed that 87 percent of Americans believe costs are rising at a rate that will put college out of reach for most people.[1] This perception—that college soon will be unattainable for most citizens—is an ominous sign that threatens the basic fabric of American education and society.

Why such deep-seated concern? The main reason is that paying for college now ranks second only to buying a home as the most expensive investment for the average family. As tuition has increased more rapidly than inflation and family income, the burden of paying for college has become more difficult for students and their parents—and the dream of college more elusive for poor and middle-income families.

The explanations for the sharp increase in college costs during much of the 1980s and early 1990s are complex. Every institution has

"I remember when I was growing up picking up a geography book and reading that the United States was a wealthy nation because of all of the natural resources we have. And I believed that, until a few years ago, when I found that the nations that are moving ahead economically more rapidly than the United States—nations like Japan, Taiwan, and Sweden—have virtually no natural resources but are investing in their human resources. We must do the same."

SENATOR PAUL SIMON (D–IL)
REMARKS BEFORE THE COMMISSION, JUNE 16, 1992

faced different financial and infrastructure issues, making any generalizations difficult at best. Furthermore, economic and social conditions have changed considerably during the past decade, with major repercussions for college costs.

The primary purpose of this Commission was not to sort out the reasons *why* college costs increase. Our central task was to explore options to address these cost increases and make college affordable for all interested and able Americans. We have outlined such options in our Recommendations, found in the following chapter.

In this chapter, we explore policy concerns that have shaped our Recommendations and explain why college financing is on a path that only can widen the gulf separating disenfranchised and undereducated Americans from higher education. We believe there is a crisis in the postsecondary education finance system, and this crisis threatens to fundamentally change the economic and social landscape of our nation.

The "affordability" of college and university study has emerged as a matter of considerable discussion in recent years. This is because college costs (tuition, fees, room, and board) have increased faster than inflation, family incomes, and many other measures associated with the ability of families and students to pay for college.[2] As a result, many reports and studies have zeroed in on a "crisis in affordability" of higher education.

Part of the problem with this issue is that analysts have placed undue emphasis on defining the term "affordable." There are many ways to measure the "affordability" of higher education, yet no two analyses ever agree on a common definition applicable to students and families. This has caused a situation in which researchers have spent an inordinate amount of time defining the problem rather than engaging in constructive discourse to address the problem and develop ways to avert it in the future.

Our work was guided in part by the belief that the affordability of college for families and students—however it is defined—is our most important concern. Several factors listed below have influenced our analysis of the cost of college and the ability of families to pay.

First, the costs of attendance facing families and students have increased at a substantial rate. In fact, virtually all of the available evidence suggests that the burdens of paying for college are increasing for all Americans. From 1980 to 1990, the average costs of attendance (or "sticker price") at all institutions rose 126 percent—more than twice the

rate of increase of inflation. During the same time period median family income (for families with the head of household aged 45-54) increased by only 73 percent. Accordingly, college costs as a percentage of the median family income also grew to new levels. In 1980, the average cost of attendance ($2,701 for all institutions) represented 14 percent of median family income ($19,587). In 1990, average college costs ($6,117) represented 18 percent of median income ($34,213). Projected cost and family income data indicate that college costs will take up more than 20 percent of median family income by the end of 1993.[3]

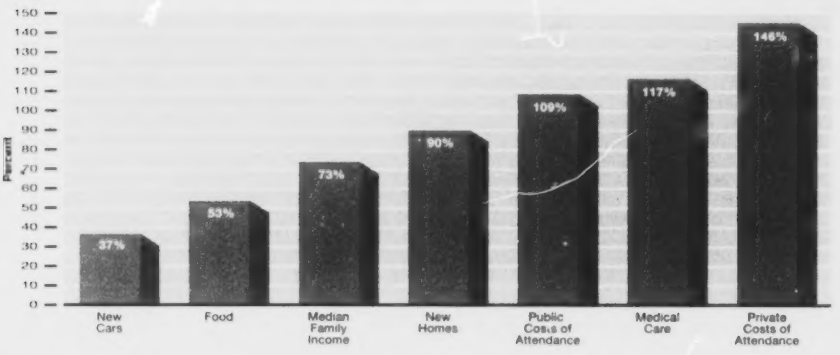
Both public and private institutions have increased costs in recent years, though not at the same rate. From 1980 to 1990, attendance costs at public institutions rose 109 percent—or an average annual rate of 8 percent—while at private institutions attendance costs increased 146 percent, or about 10 percent annually. In the last two years, however, public sector costs mushroomed by 12 percent in 1991 and 10 percent in 1992. In comparison, private sector costs increased only 7 percent in 1991 and again in 1992.[4]

A further breakdown—by type of institution—shows that college costs at four-year colleges and universities have risen at a slightly faster rate than at two-year institutions. From 1980 to 1990, attendance costs at two-year public institutions increased from $1,821 to $3,715, an average annual gain of 8 percent, while at four-year public institutions costs rose about 9 percent annually, from $2,198 to $4,742. At private institutions, two-year attendance costs rose from $3,755 to $7,885—almost 9 percent a year—while four-year attendance costs increased from $4,699 to $11,698, an 11 percent annual jump.[5]

College costs also have increased at a faster rate than many other consumer purchases. As Chart 1 shows, college costs in the last 10 years have risen faster than the price of cars, food, even new homes. Combined with higher costs in other areas such as health care, this trend has placed even greater strains on the ability of families and students to find enough money for college.

CHART 1

Increases in College Costs Compared to Consumer Purchases and Median Family Income, 1980–1990



Source: U.S. Department of Commerce, Bureau of the Census, Current Population Reports, Series P–60, No. 174, 1990 and U.S. Department of Commerce, Statistical Abstract of the United States: 1991 (Washington, DC: U.S. Government Printing Office, 1992).

Second, student financial aid has failed to keep pace with college costs. Looking at the past decade, Table 1 shows the costs of attending both public and private institutions increased nearly twice as fast as the total student aid available. Costs of attendance outstripped federal student aid by an even larger margin—with grant aid failing to increase at all over this time period. It appears that only institutionally-awarded aid (provided mainly by private institutions) helped avert an even more serious crisis in affordability during the 1980s.

TABLE 1

College Costs Compared With Student Aid Awarded, 1980 To 1990

(STUDENT AID IN MILLIONS)	1980–81	1990–91	CUM.% CHANGE	AVERAGE ANNUAL % CHANGE
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Grants	6,747*	6,585	–2%	0%
Loans	6,958	13,889	100%	8%
Work study	660	728	10%	1%
State Student Aid	801	1,860	132%	10%
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total Federal, State, and Institutional Aid	$16,791	$28,508	70%	6%
(COST OF ATTENDANCE IN ACTUAL DOLLARS)				
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Private Institutions	$4,912	$12,057	146%	10%

Source: Lawrence E. Gladieux and Laura Greene Knapp, Trends in Student Aid: 1982 to 1992 (New York: The College Board, 1992), p. 4–6.
Includes Social Security educational benefits, which were fully phased out in 1985.

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Another disturbing trend is that state student aid has lagged far behind increases in costs at public institutions during the past two years. In 1992, 10 states actually *increased* the cost of college while *reducing* student aid.[6] This "double hit" is likely to have profound effects on prospective students' opportunities to attend college.

Third, many indicators show evidence that college is much more *un*affordable than in the past. Compared to the 1970s, for example, college is much less affordable for most families. In the 1970s, family incomes increased an average of 8 percent per year, while costs of attendance increased about 6 percent a year at public institutions and nearly 8 percent at private institutions.[7] During this time period, families enjoyed greater affordability than in recent years, when incomes have increased only about one half as fast as costs of attendance.

Furthermore, comparisons with other eras also illustrate the problems of the current crisis. In the 1950s, for example, the GI Bill helped millions of veterans attend college at a modest cost. Veterans gained because the average value of GI Bill benefits was so high compared to the cost of living during that time. In one estimate, the average annual GI benefit from that era would equal more than $8,000 in current dollars.[8] By comparison, the maximum Pell Grant award in the 1993-94 academic year will be $2,300.

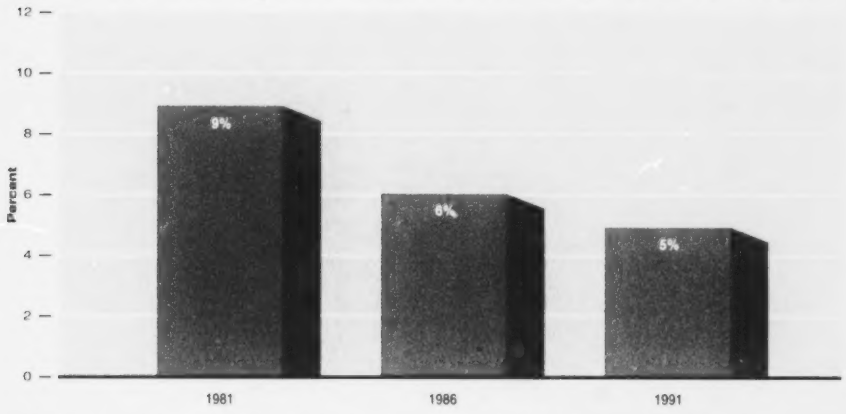
Clearly then, with college costs far outrunning family incomes, student financial aid and other sources of support, college has become increasingly unaffordable for many families—particularly since the early 1980s. Further, as the mix of student aid has changed from an emphasis on grants to an emphasis on loans, the burden on families and students has increased substantially.[9]

Fourth, the postsecondary education financing system has failed to encourage families to save money—in any significant way—to pay for college expenses. While data on the amounts of money saved for college are difficult to find, the limited data available are discouraging. A 1986 survey found that only 34 percent of all households save specifically for higher education expenses.[10] Likewise, a 1989 survey of high school juniors who said they planned to go to college found that 56 percent had either just started or just planned to start saving for college.[11] Obviously, these actions come much too late for most Americans to save meaningful amounts.

Given current national savings trends, the situation may grow worse in the immediate future, experts say. In general, Americans have saved less in the past decade than they had in previous periods, according to the Council of Economic Advisers. In 1981, for example, savings represented 9 percent of disposable personal income. By 1991, that savings rate decreased to a paltry 5 percent, or almost half of what was saved only a decade earlier. During this same time period, the costs of attending colleges and universities more than doubled.

CHART 2

Personal Savings as a Percent of Disposable Income



Source: Council of Economic Advisers, Economic Indicators, January 1992 (Washington, DC: U.S. Government Printing Office, 1992).

Fifth, broad social and economic trends in America are likely to exacerbate the college affordability crisis in the future. More than ever, policymakers' projections of many important national issues—including college costs—are driven by key demographic trends in our nation. These demographic changes will help shape how we approach postsecondary education in the United States in the next decade.

As many recent reports and studies have documented, the social fabric of the nation is shifting dramatically. Ultimately, significant social changes affect how the nation approaches its social and economic challenges. Consider these trends:

- In the last decade, the number of single-parent families increased dramatically, from 12.5 million in 1980 to 15.5 million in 1989.[12] Census data show that 13.7 million children are growing up in single female-parent families, whose median family income is $10,982.[13]

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"Economists forecast that California's labor force in the 21st century will need to be substantially larger and more college-educated. And the health of the California economy and way of life will depend on the extent to which higher educational institutions in California effectively incorporate and educate its growing and diverse citizenry for this future."

MARSHA HIRANO-NAKANISHI,
DIRECTOR OF ANALYTIC STUDIES,
CALIFORNIA STATE UNIVERSITY SYSTEM

TESTIMONY BEFORE THE
COMMISSION, JULY 15, 1991

The percentage of children who live in a single-parent, female-headed household increased from 11 percent in 1970 to 22 percent in 1989.[14]

- According to the National Commission on Children, one in five children lives in a family whose income falls below the poverty level. This translates to 13 million children living in poverty, an increase of two million in the last decade. Poverty rates among minority children are much higher; 44 percent of all African-American children and 36 percent of all Hispanic children are poor.[15] Poverty is also on the increase in urban areas, smaller cities and rural areas.

- Minorities will continue to make up a larger share of the U.S. population of the United States due to higher birth rates and immigration. Census data show that African-Americans and Hispanics, the two largest groups, now constitute 21 percent of the total population.[16]

- The number of Americans between the ages of 24 and 49 now stands at 94.2 million, or about 38 percent of the total population. At the same time, the "traditional" college age group (ages 18 to 24) is 26.6 million or 11 percent of the population, its lowest point since the mid-1970s.[17]

- The number of people in prison and jail has increased to 760,000 (1991), the highest number in the history of the nation.[18]

- The exodus from the inner city to surrounding suburbs is continuing at a high rate. In 1990, the population of suburbs grew by an average of almost 10 percent since 1980, causing enormous changes for the nation's cities.[19]

Given these trends, it is not surprising that projections show a changing social composition in the United States well into the next century. Census forecasts indicate that:

- The U.S population will continue to grow, but at a slower rate. Three states—Texas, California, and Florida—will account for the most growth.[20] The growth in these states and others will be fueled in large part by increases in nonwhite populations.

- The population will continue to age. In the 1990s the 35+ segment of the population will increase by 25 percent.[21] Many of the baby boom generation will retire, beginning in the first decade of the next century.

- The number of 18-year-olds, still the most common single age group enrolling in college, will rise by the end of the decade. Though the 18-year-old cohort has been in decline for the last few years, by the year 2000 the number will actually rebound to the levels of the late 1980s.[22]

- The United States will attract about two-thirds of the world's immigration. After the year 2020, immigration will become the major source of population growth for the U.S. Eighty-five percent of the new immigrants in the next two decades will come from Central and South America.[23]

- By the year 2000, women, immigrants, and minorities will make up 85 percent of all new workers.[24] A significant gap will exist in the workforce between low-skilled, minimum wage jobs and high-paying technical and administrative positions that require at least a college degree. Jobs in the middle economic range will decline and a split will develop that divides society into "information-rich" and "information-poor" segments.

Juxtaposed with these trends and projections are others showing that the social costs of a changing society inexorably lead to economic upheaval as well. These economic and social trends show that higher education will have to compete with other domestic programs for available federal money. For example:

- The growth in single-parent families and children born to single mothers and into poverty has increasingly taxed the nation's social welfare structure. The costs of Aid to Families with Dependent Children (AFDC), the Women, Infants and Children (WIC) program, and other public aid skyrocketed in the last decade from $72 billion to $127 billion.[25]
- The increases in socially disadvantaged populations—especially those from low-income backgrounds and recent immigrants—also

"American higher education faces an increasingly diverse student population that includes higher proportions of minorities, adults with family and work responsibilities, and students with inadequate levels of basic skills. Many believe that our willingness to come to grips with this diversity may signal our country's ability to endure as a world leader."

DENNIS J. KELLER, CHAIRMAN AND CEO, DEVRY, INC.

TESTIMONY BEFORE THE COMMISSION, SEPTEMBER 12, 1991

have increased social costs. In addition to welfare expenditures, the costs of public housing and health care programs have increased because of population growth among these groups.

- The changing age profile of the nation has had several effects, such as an increasing burden on the Social Security program. In the future, fewer workers will share the costs of each retiree who draws on the fund, while the increased need for health care will drive up these costs.

- As the number of incarcerated persons has increased, so has the cost of maintaining prisons and building new facilities. In 1991 the nation spent more than $18 billion to operate state and federal prisons. Further, the average per-prisoner expenditure of $17,545 per year to house and care for prisoners is more than twice the average expenditure per student at a four-year public college.[26]

- In 1989, the nation paid out $14.3 billion in unemployment insurance, with the average unemployed worker collecting benefits for 13 weeks.[27]

- Throughout the 1980s, the combination of decreased federal expenditures and rising costs created problems for state budgets, including funding for colleges and universities. Higher education now must compete with other budget areas for general fund dollars. While higher education once enjoyed annual funding increases, now it often hopes just to avoid funding cuts. In 1990, the average share of state budgets going to higher education was 18.3 percent, its lowest level ever.[28]

- Similarly, while the total federal budget has increased from $600 billion in 1980 to more than $1 trillion now, the percent of the budget going to higher education programs has declined from about 1.3 percent in 1981 to less than 1 percent for each of the last 10 years.[29]

- The status of the global economy is ever changing. While the United States is the remaining superpower, its place in the international market is slipping because of a high deficit and a negative trade balance. To regain its economic foothold, American businesses will have to change management and manufacturing techniques, which will require retrained and better educated workers.

These trends suggest that American higher education increasingly will be called upon to help the nation solve its social and economic challenges. As the nation and the world undergo dramatic and long-overdue change, American higher education will play a critical role in ushering in a new era. College education will rank as an essential component in the broader strategy of addressing the nation's problems.

However, these trends also point to a potentially troubling dilemma: As policymakers look to higher education to address national needs, the strains caused by economic and social change likely will escalate. Inevitably, these problems will force governments to tackle the parallel problems of social change and economic stagnation. Making sure that college is affordable therefore will become even more difficult—while the nation's need for education will be greater than ever.

We believe two overarching problems have created this affordability gap: the postsecondary education finance system has failed to assure adequate *accessibility* to a postsecondary education for all interested and able students; and it has failed to foster a sense of shared *responsibility* among the parties who participate in, and benefit from, postsecondary education. These are described in detail below.

PROBLEMS CONCERNING ACCESSIBILITY

For the second half of this century, the federal government has made equal opportunity a primary focus of national policy in higher education. With the passage of the Higher Education Act in 1965 plus subsequent amendments to the Act in 1968 and 1972, the nation's leaders codified America's commitment to equal access to all levels of postsecondary education. This explicit federal commitment to equal educational opportunity has become a central theme in national debates on higher education policy for more than two decades.

States also have played an essential, and in some ways, larger, role in this educational equity process. As primary guarantors of education, states have offered their residents affordable tuition at a wide variety of public higher education institutions. With enrollment of nearly 80 percent of all higher education students in public institutions, affordable public college tuition has been an important component of the national goal to promote access.[30]

THE UNIQUE AMERICAN SYSTEM

The history of postsecondary education financing in the United States is unlike that of most other nations. We have always relied on families (this means both individual students and/or their parents) as the first source of support for postsecondary education. In fact, families have paid from 40 percent to 60 percent of the costs of postsecondary education for most of the past three decades in the United States. In recent years this has accounted for about $60 billion per year in the total revenues of higher education institutions.

Most other industrialized nations of the world look first to the national government as the primary or first source of support. However, this is beginning to change. Countries such as Australia are moving toward systems which rely more on student or family contributions as a major portion of the total postsecondary education financing process.

More importantly, the U.S. still leads the world in emphasizing access to higher education as a fundamental national goal. While funding for higher education in other nations may be higher on a per-student basis, no other nation comes close to making postsecondary education a possibility for such a broad range of citizens.

Similarly, private institutions also have made major contributions to access, primarily through investment in institutional aid. Private institutions have invested heavily in need-based student aid, particularly in the last decade as resources from the federal government and other sources have declined.

At the national level, government has supported educational equity through a variety of initiatives, particularly federal student aid programs. Since its first year of operation in 1973, the Pell Grant program has provided more than 45 million grants totalling $50 billion.[31] The even larger Federal Family Education Loan (formerly Guaranteed Student Loan) program has made more than 60 million loans totalling in excess of $125 billion since its inception in 1965. This program has loaned more than $100 billion of this total since 1980.[32]

Because of this national commitment to access, millions of low- and middle-income students attended postsecondary education who otherwise would not have had the opportunity to do so.

However, despite this large investment of resources in access to postsecondary education, many aspects of the current financing system have failed to assure the equitable treatment of all interested and able prospective students. The most important of these failings is that socioeconomic status is still a key barrier to access to higher education. As Chart 3 shows, students with high ability but low or middle socioeconomic status are considerably less likely to attend college than students with similar abilities but a higher family income. Lower-ability students from affluent families are almost twice as likely to go to college as similar students from families of low or middle socioeconomic status.

Nevertheless, the current system has increased participation in other important ways. It certainly has contributed to the increased attendance of women, who now constitute more than one half of total higher education enrollments. By comparison, women represented less than 40 percent of students during the 1960s and early 1970s.[33] In addition, the system has had some effect on the participation of students—especially females—who attend school part time, contributing to the significant growth in enrollments at two-year institutions.

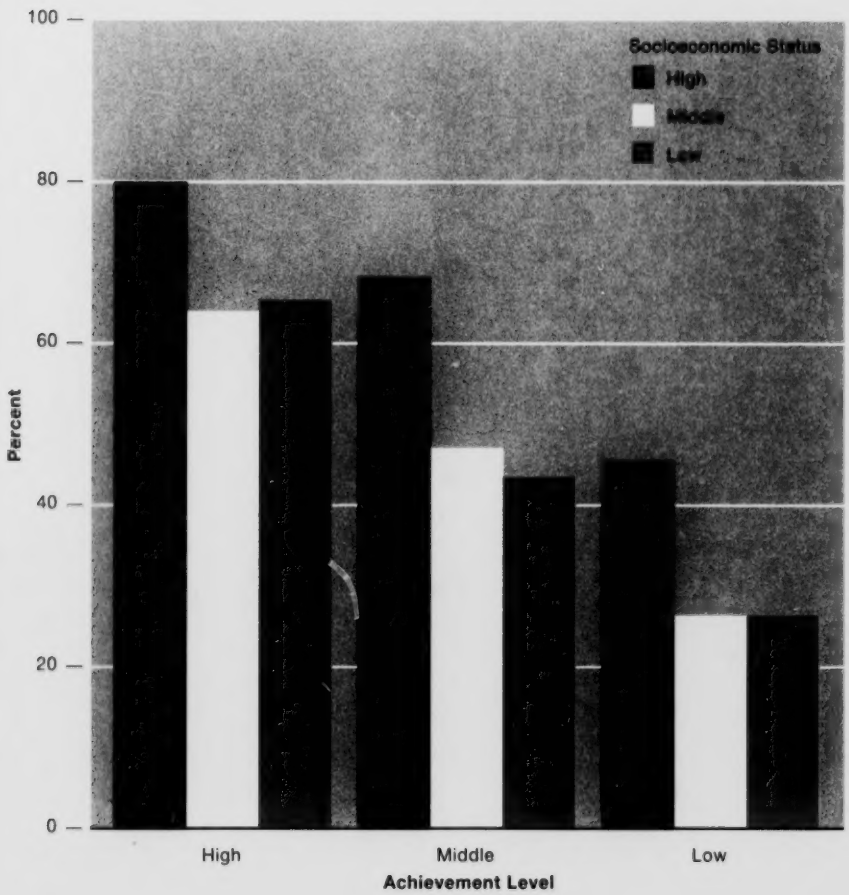
But the evidence of the past several years shows only limited success in increasing the participation of low-income and socially disadvantaged persons in higher education. In fact, the enrollment of financially disad-

vantaged and minority students in higher education has not increased sizably for more than a decade. These facts are alarming because federal, state and institutional aid programs have awarded more than $200 billion to needy students just since 1980.[34]

Certainly these findings do not point to an overall failure of the higher education finance system. Without need-based student assistance and reasonable tuition levels (particularly at many state institutions), participation of low-income and disadvantaged students would have declined even more dramatically. But the lack of meaningful progress in this area concerns the Commission. This breakdown of the system has occurred because of several factors:

CHART 3

Percent of Recent High School Graduates Enrolling in College, by Socioeconomic Status



Source: Memorandum to the 41st President of the U.S., Commission on National Challenges in Higher Education, 1988, p. 34.

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Federal grants to students have not increased at a rate that reflects family needs and the rising costs of college.

The Pell Grant program, considered the "floor" of financial support for needy students when it was created in 1972, now stands as a weakened and limited program for many students. There are two central reasons for this program's unfortunate malaise. First, the increased demand for grant assistance by college students diluted the effectiveness of the program and restricted eligibility. For instance, between 1980 and 1990, the number of Pell Grant applicants jumped from 4.8 million to 6.5 million, or about 35 percent over the 10-year period.[35] Because of growing demand for this non-entitlement program, the government then tightened the definition of grant eligibility. Not surprisingly, as demand for grants increased, the average family income of students who received Pell Grants plummeted sharply. Between 1980 and 1989, median family income for Pell recipients declined in real terms by 30 percent, from $12,419 to $8,674. Only 6 percent of all Pell Grant recipients came from families with incomes above $30,000. More than one-quarter of all persons who applied for a Pell Grant never received any funds at all.[36]

A meteoric rise in Pell dollars going to students at proprietary institutions posed an even greater problem for students in other sectors of education. Students at proprietary schools received about 12 percent of all Pell Grant funds in 1980, or about $275 million. By the end of the decade, however, the proprietary school share of Pell funds jumped to 23 percent, or about $1.1 billion.[37]

In effect, nearly all of the increased Pell Grant funds in the 1980s were awarded to students at proprietary institutions. Students attending private colleges and universities saw their share of Pell Grant dollars decrease from 29 percent in 1980 to about 20 percent in 1990.[38]

This incapacity of the system to meet the demand for aid by college students also led to the second major shortcoming of the program: the failure of grant funding to keep pace with tuition hikes. Between 1980 and 1990, the maximum Pell Grant award increased only $650, from $1,750 to $2,400 (or about 37 percent). During this same period, the average cost of attendance rose by 101 percent at public institutions (from $2,373 to $4,764) and 138 percent at private institutions (from $5,470 to $12,997).[39] Sadly, the maximum grant award actually will decrease in 1993-94 to $2,300.

Ironically, despite these funding shortfalls, the maximum *authorized* Pell Grant award steadily increased in the past decade, from $2,300 in 1987-88 to $3,100 in 1991-92. In fact, during the 1992 Higher Education Act reauthorization, Congress again increased the maximum award—to $3,700 in 1993-94 and $4,500 by the 1997-98 year. So far, actual funding has not kept pace with these increased authorization levels, leaving a growing gap between what the law provides and annual appropriations.

It is increasingly apparent that authorized grant levels bear little relationship to the actual amounts students receive or to the costs that they actually must pay. This hollow promise in the face of escalating costs represents a major step backward in attempts to improve access to postsecondary education.

Students and their families have only limited knowledge of college costs and the availability of financial aid.

One of the most important hurdles in the current system is that students lack basic information about what college costs and how much aid is available from various sources. For example, in a 1988 Gallup Poll of students ages 13 to 21, students greatly overestimated the costs of attendance at colleges and universities. According to the survey, student respondents believed tuition and fees at a public institution totalled $6,841 when they actually were $1,566; likewise, they guessed that average tuition and fees at a private institution was $10,843 when they actually were only $7,693.[40]

In this same survey, nearly one half of the respondents who had graduated from high school but did *not* attend college agreed with the statement "financial aid is only given to students whose parents cannot afford to pay for schooling". Yet about one half of all aid goes to students who are financially independent of their parents and that significant aid in the form of loans is available to a broad range of students and families.

This misunderstanding about the financing system exists even among those just about to enter college. A 1989 survey of high school seniors in Indiana found that only 50 percent could identify or describe four of six financial aid programs (such as Pell Grants, federal student loans, work-study, or college scholarships). The same study

found that nearly 70 percent of seniors, and 50 percent of their parents, could not accurately distinguish between low, moderate, and high cost institutions.[41]

Students and parents are confused and intimidated by the large number of financial aid programs and their policies and procedures.

The current system of financing postsecondary education has become a confusing array of programs, participants, and procedures in which it is difficult to keep track of all the players without a scorecard. This multi-layered system is more than just an annoyance for those who apply for or receive student aid. Increasingly, experts view the complexity of the system as an important barrier to access to higher education.

The result is that students are confused both about the source of funds they receive and, in the case of loans, their obligations for repayment. For these students, complicated and onerous application procedures pose real barriers to access, especially at the federal level. Likewise, parents and guidance counselors also have become confused by the frequent name changes and number of aid programs.

The Higher Education Act now contains 15 Titles, with topics ranging from student financial aid to educational excellence and Indian higher education programs. Title IV of the Act, which houses most student aid funds, contains four "main" loan programs, three "main" grant programs plus the Federal College Work-Study Program, the Federal TRIO programs, the National Early Intervention Scholarship and Partnership Program, the Federal Direct Loan Demonstration Program, and numerous others.

Not only has the number and type of programs mushroomed—but the program names have changed, sometimes more than once. The Federal Family Education Loan Program is the latest name for the group of programs formerly referred to as "guaranteed student loans" under Title IV. But the Guaranteed Student Loan Program was the name originally given to the first federal student loan program authorized by the Higher Education Act in 1965. The original GSL program is now a subsidiary, but still the largest, of the overall loan program, though it is now called the Federal Stafford Student Loan Program. From 1986 to 1992 this program had the slightly simpler name of the Stafford Student Loan Program.

Lawmakers have repeated this pattern with many other federal aid programs. The Federal Pell Grant Program was formerly called the Basic Educational Opportunity Grant Program, and the Federal Supplemental Loans for Students Program is the successor to a program known as Auxiliary Loans to Assist Students (ALAS).

At the same time, other federal agencies also sponsor a variety of programs that offer financial aid to students. These include veterans' education programs, health professions programs under the Department of Health and Human Services, and National Science Foundation Fellowships, to name but a few.

Other players in the financing apparatus add to the complexity of the loan process. Numerous secondary agencies and loan servicing companies—from Sallie Mae to private, public and state-level secondary markets—provide liquidity to lenders by purchasing student loans. While this helps the system by making more capital available, it often confuses students. When their loans are sold, perhaps several times, students face the same kind of problems as homeowners whose mortgage loans are sold in the secondary market.

At-risk youth and their parents fail to receive useful, early information to plan for postsecondary education.

Combined with limited academic and social support, a lack of basic information contributes to the inadequate access of at-risk students to postsecondary education. Studies have shown that elementary and secondary students and their parents are woefully underinformed about the costs of college, the availability of student aid, the job market, or the economic gains of college attendance. For example, a study conducted in Illinois in the 1980s found that parents of eighth graders are frequently unaware of basic information about college. The study found that only 28 percent had ever heard of Pell Grants, and more than one half could not even estimate the costs of college at all. In addition, findings show that parents from lower income and inner-city communities in Chicago were even less knowledgeable.[42]

Research also suggests that while student aid is critical to access to higher education, other non-financial factors are equally important. Information about academic preparation and progress, as well as appropri-

"The tools and resources available to counselors are obsolete and of very little value to these professionals as they attempt to prepare appropriate information needed by today's students to explore a full range of educational and career options demanded by America's post-industrial economy. Students and parents alike need accessible to them accurate, detailed, and contemporary information regarding the job market and financial aid resources and procedures."

REGINA E. MANLEY, PRESIDENT,
NATIONAL ASSOCIATION OF
COLLEGE ADMISSION COUNSELORS

TESTIMONY BEFORE THE
COMMISSION, SEPTEMBER 12, 1991

ate social support and guidance, are essential for improving the prospects of postsecondary education access for at-risk students. An Education Department survey of eighth graders found that while two-thirds planned to earn a bachelor's or advanced degree, only about one-third had plans to enroll in a college preparatory program in high school.[43]

The 1992 Higher Education Act reauthorization took important and much-needed steps to address aspects of this problem. In particular, Congress created or expanded several programs to extend the reach of early awareness and outreach efforts and target at-risk populations. These include a computerized database of information that would be accessible through schools and libraries, a new Presidential Access Scholarship Program for low-income students who excel academically in high school, and a new National Early Intervention Scholarship and Partnership Program that links participation in early intervention programs with guarantees of supplemental financial aid.

Even with these important improvements, America still needs to do more. Current programs still do not provide broad access to technology and computer software that describes the benefits of postsecondary education, the need for academic preparation, and the availability of aid programs that may assist in paying for college. Furthermore, current programs do not go far enough to involve parents as an important—perhaps the most important—participant in this process. Policymakers will need to address these and other issues in order to fully extend the reach of early intervention as a vital component in the process of increasing educational opportunity.

Despite gains at two-year colleges, low- and middle-income students do not have adequate access to the baccalaureate degree.

In recent years the prospects of attending an institution that offers a bachelor's degree has declined for many students from low-income, middle-income, and minority backgrounds. For example, between 1972 and 1989 community colleges experienced the largest increase in enrollments in higher education. These institutions, which serve the largest number and percentage of disadvantaged students, saw their total share of higher education enrollment increase from 27 percent to 38 percent during this period.[44]

Low-income and minority students have their strongest representation in the proprietary sector of postsecondary education. African-American and Hispanic students represent 35 percent of the proprietary school population, and more than 75 percent of all proprietary students come from families with incomes less than $25,000 a year.[45]

In addition, minority students tend to enroll in much greater numbers at lower-cost public and two-year institutions. Minority students make up 23 percent of the student body at two-year institutions but only 16 percent at four-year institutions.[46]

Education experts also are alarmed by the low rate of transfer or "articulation" between two-year and four-year institutions. While research on this topic is controversial, most evidence shows that no more than 25 percent of all community college students ever graduate from a four-year institution.[47] Without significant access to a baccalaureate degree, students face lower opportunities for higher economic standards and quality of life.

Student aid programs lack sufficient coordination with other federal human resource programs, such as Food Stamps and Aid to Families with Dependent Children.

The failure to coordinate programs across or within agencies is a serious problem in the structure of federal human resource policy. The independence and isolation of these programs also pose a significant barrier to access for students who receive more than one form of federal assistance.

In recent years, complaints have increased about the lack of coordination and cooperation among programs ranging from student aid to AFDC, Food Stamps, vocational rehabilitation and others. Eligibility requirements differ widely, as do delivery systems. Many experts have found coordination lacking even among policies and staff within a single program.

The Food Stamp program offers one of the most prominent examples of the breakdown between student aid and other federal human resource programs. Applicants who want to pursue a postsecondary education face at least three additional hurdles before receiving student aid. In addition to the Food Stamp needs test, they also must meet other eli-

"I was receiving Food Stamps and they considered [student loan funds] as part of my income. [So] I went from $312 a month in Food Stamps to nothing. I had to use a lot of the loan money just to provide food for my family."

RONALD DOPICO,
a 35-year-old parent attending Miami-Dade Community College. Dopico, who is legally blind, is the sole income provider in a family that includes himself, his wife, and their three children.

TESTIMONY BEFORE THE COMMISSION, NOVEMBER 13, 1991

gibility criteria—including a requirement that they work at least 20 hours per week or participate in a government-sponsored work-study program. To qualify, they also cannot deduct from their income any money spent on tuition, books, or other college expenses. Lastly, students who receive federal student aid may have to count this assistance as "income" under the Food Stamp program. In some documented cases, students have lost their eligibility for Food Stamps because they received a federal student loan—hardly a worthwhile tradeoff. These factors can obviously serve as major impediments to access for students seeking a postsecondary education.

In many instances, applicants also must file multiple forms and undergo a completely separate process to determine eligibility for student aid and other federal human resource programs. Ironically, this lack of cross-agency coordination and consistency is in many cases avoidable. For example, a 1989 study found that 92 percent of AFDC recipients who also received student aid were eligible for a maximum Pell Grant.[48] Given that level of conformity, the existence of separate systems of eligibility needs to be examined.

The methods used to determine "need" and deliver student aid can contribute to access problems for low- and middle-income students.

One of the perplexing aspects of the existing system is that needy students must go through complex and confusing procedures to prove their eligibility for aid. In many cases, low- and middle-income students must pay a fee to have their applications processed and delivered to institutions. In essence, they must pay to prove that they are needy. This policy is another barrier to access in a postsecondary education access.

Fortunately, the hues and cries to simplify need analysis and delivery helped bring about important gains during the 1992 reauthorization of the Higher Education Act. These hopeful developments included a newly-redesigned application form for federal student assistance, a reduction of fees paid by applicants, the development of a single need analysis formula, and the establishment of standardized forms for federally guaranteed student loan programs.

Despite these important steps toward simplification, complexity will

"To benefit from these programs requires considerable effort, from completing intimidating forms to researching possible scholarships. These procedures could discourage those not having the capacity to fulfill the requirements."

DONALD AND PHYLLIS AHLM,
PARENTS OF A NORTHWESTERN UNIVERSITY STUDENT

TESTIMONY BEFORE THE
COMMISSION, SEPTEMBER 12, 1991

continue in many areas of student aid. For example, elementary and secondary students and their parents still have trouble obtaining accurate information on the costs of college and their potential eligibility for student aid. They also have only limited access to national information about college academic requirements, preparatory courses, and other essential facts needed to plan accurately for college. None of this information is readily available from any central source, such as a software program that could be distributed to schools and guidance counselors—and then to families.

The current system was designed primarily for traditional college-age students and continues to face difficulties meeting the lifelong learning needs of adult, part-time, and other "non-traditional" students.

A recent report from the American Council on Education says more than two-thirds of all undergraduate students in American higher education are "non-traditional"—defined as students older than the age of 22, financially independent, or attending college on a less than full-time basis.[49] U.S. Census Bureau data show that in 1990 almost 45 percent of all college students were 25 years of age or older; only two decades earlier, that figure was less than 30 percent.[50]

While the number and percentage of adult, financially independent citizens attending college is a hopeful sign about the importance of lifelong learning, this trend has created problems for the financing system. The main reason is that the framework of the student aid system and the process for determining need was designed in the 1950s, based on the model of the financially dependent, 17- or 18-year-old entering college full time in the fall following high school graduation. In today's college financing environment, it is becoming increasingly apparent that the needs of both traditional and non-traditional students must be considered with equal weight.

Contemporary college students face expenses that are largely out of the purview of current student aid programs: regional disparities in the cost of living, child care expenses, and other items. As a result, student aid programs can be insensitive to the real costs non-traditional students face. For instance, the average national cost of day care for one child is

"The need for life-long learning has been clearly established, both by demand and by our understanding of the changing workforce and societal needs of the future."

DAVID A. LONGANECKER, EXECUTIVE DIRECTOR, COLORADO COMMISSION ON HIGHER EDUCATION

TESTIMONY BEFORE THE COMMISSION, JULY 15, 1991

nearly $300 a month. This equals about 24 percent of the average monthly income for families with total annual income below $15,000 a year.[51] This kind of expense is often a major hurdle for adult students who are looking to improve their economic and social prospects through higher education.

PROBLEMS CONCERNING RESPONSIBILITY

Concerns about the affordability of college have given rise to the question: Who pays what share of the "burden" of college financing? The responsibilities for financing postsecondary education have undergone a variety of changes during the last four decades. These shifting roles have had an important effect on how students and their families pay for college and the role governments and others play in the financing process.

While the burdens of paying for college may have changed throughout the years, the main partners in this effort have not. Families and students, the federal government, state and local governments, and philanthropy (including the institutions) together have borne the primary responsibility for financing higher education.[52] These sources are likely to continue to provide most of the support in the future.

Data on the shifting burdens of paying for college show the federal government's share of the total financing burden has decreased dramatically since 1950, from 46 percent to 11 percent. As Table 2 shows, the federal government clearly bears a lower portion of the financing burden than it has in the past. The federal share fell to about 16 percent in 1960, fluctuated for several years, and then dropped to about 11 percent for most of the past decade.[53]

The federal share of the financing burden at public institutions has mirrored the government's overall share of the financing burden, with a steady decline since the 1960s, a brief increase in the 1970s, and a continuing decline in the 1980s. The federal share of total revenues for private institutions has also declined, particularly since 1980.

During the past three decades, state and local governments have borne a larger overall responsibility for financing postsecondary education than the federal government. State and local shares have grown from 14 percent in 1950 to almost 20 percent throughout the 1960s and

peaked at 25 percent in 1975. Since then, the state and local share has dropped slightly, to about 23 percent in 1990.[54]

Virtually all state and local aid has focused on public institutions. State and local governments had a 31 percent share of the financing responsibilities for public institutions in 1990, compared to only about 5 percent for private institutions. However, contributions from state and local governments to public institutions have declined modestly since peaking in 1975, while their support for private education has increased.[55]

TABLE 2

Changing Percentage of Financing Burden for Postsecondary Education, 1950 To 1990

	1950	1960	1965	1970	1975	1980	1985	1990
FEDERAL	34%	10%	18%	17%	19%	18%	17%	18%
STATE & LOCAL	14%	19%	19%	23%	25%	25%	24%	23%
PHILANTHROPY	6%	7%	6%	6%	5%	5%	5%	5%
OTHER	2%	2%	3%	4%	7%	9%	10%	11%
FAMILY	31%	58%	56%	49%	44%	43%	43%	43%
Parent	20%	43%	45%	34%	23%	23%	29%	31%
Student	11%	16%	11%	14%	18%	20%	14%	12%

Notes: Percentages represent share of total spending on higher education. The federal share in 1950 is considered anomalous due to the heavy use of post-war GI benefits.

Institutions are not considered a "revenue source" in these calculations because they are the recipients of funds from all other sources. However, as noted earlier, institutions have dramatically increased their commitments to student aid as assistance from the federal government has diminished.

■

Historically, the U.S. system of higher education always has placed the primary financial responsibility with the family—a policy virtually unique in the world. Not surprisingly, the share of the financial burden borne by the family has changed inversely to the federal role: As the government's share has decreased, the family's burden has increased. In 1950, the family contributed about 31 percent of the costs of paying for college. This share increased to 56 percent in 1965 but dropped in the 1970s to 39 percent as the government's share increased. Thereafter, the family percentage again began to climb—from 43 percent in the early 1980s to 49 percent at the decade's end.[56]

Within the family, the shares paid by student and parent also have shifted dramatically. The parental burden remained high throughout

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"In my various positions related to student financial aid delivery, it has been clear that the uncertainty about responsibility to pay for postsecondary education has directly diminished access for needy students. The constantly shifting messages as to federal, state, parent, or student responsibility leads students to believe that college is not a certainty if they have limited means."

NATALA K. HART,
DIRECTOR OF SCHOLARSHIPS AND FINANCIAL AID,
INDIANA UNIVERSITY–PURDUE UNIVERSITY
AT INDIANAPOLIS

TESTIMONY BEFORE THE
COMMISSION, SEPTEMBER 12, 1991

the 1960s and the early 1970s at almost three-fourths of the total family share. By the mid-1970s parent and student responsibility began to even out, approaching parity by 1980. Since that time, however, the parental burden once again has increased, so that by 1990 parents shouldered nearly two-thirds of the family's financial responsibility.

Philanthropy has not dramatically increased or decreased its overall share of higher education support since 1950, though it is considerably lower than during the pre-World War II era. But philanthropic support for public institutions has doubled since 1950, reflecting the increased diversification of revenue sources public institutions have sought—especially in the last decade.[57]

The failure of the financing system to ensure equitably shared responsibility among the major players in this process represents one of the most significant shortcomings of existing policy. By failing to ensure responsibility, the system has not adequately protected the integrity of the system and the investment of taxpayer resources. In turn, this practice has limited the system's capacity to convincingly meet the nation's social, environmental, or economic needs.

The system's failure to promote shared responsibility for financing postsecondary education is best reflected in these developments:

More students than ever before are defaulting on their loans, risking the integrity of federal loan programs and raising concerns about fraud and abuse.

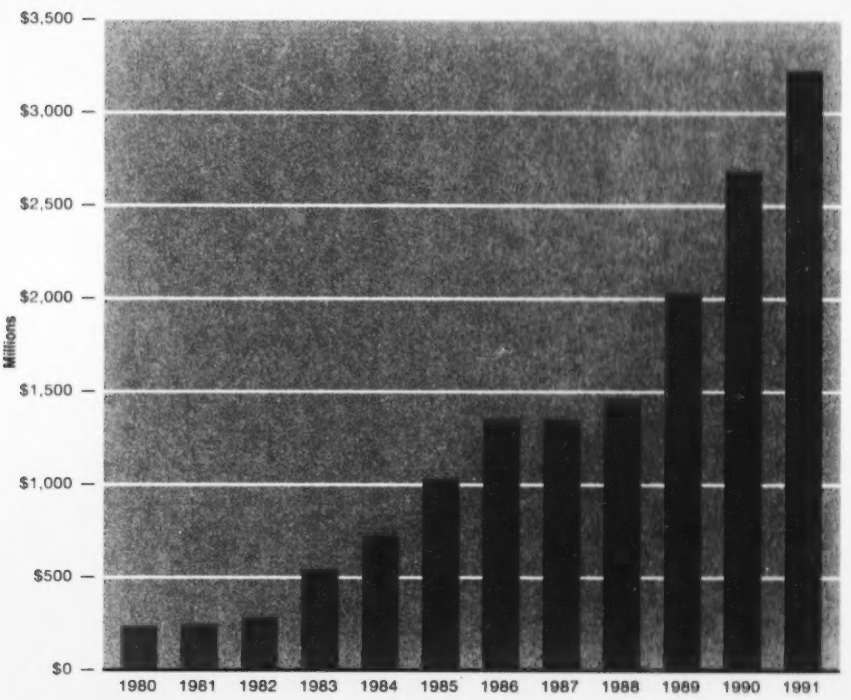
In 1991, at least one million borrowers defaulted on more than $3 billion in federally guaranteed student loans.[58] As Chart 4 demonstrates, this figure represents the highest level of defaults ever recorded. The chart also illustrates the unabated increase in defaults during the past decade. Defaults currently account for approximately one half of the total federal expenditures for the program.

The cumulative default rate, a ratio comparing the total amount of loans ever defaulted to the total amount ever borrowed, has increased from 12 percent in the late 1970s and early 1980s to more than 15 percent in the early 1990s.[59] The alarming number of defaults during the past five years accounts for much of this rate increase.

The reasons why students default on their loans are complex.

CHART 4

Annual Dollars Defaulted in Federally Guaranteed Student Loan Programs



Source: U.S. Department of Education, FY 1990 Guaranteed Student Loan Programs Data Book and FY 1991 Quarterly updates.

Contrary to the myth of "deadbeats" unwilling to repay their loans, the vast majority of defaulters are those who are *unable* to repay their loans. The research also suggests that the strongest indicators of default include dropping out of school and attending a non-collegiate institution. When they drop out of a postsecondary institution before earning a degree or credential, students often realize only limited earnings gains from their education. For example, individuals with a baccalaureate degree earn 65 percent more a month than those who attend a postsecondary school but receive no credential. In fact, those who attend college but do not receive a credential earn only 15 percent more per month than those with a high school diploma.[60]

Research on the causes of student loan defaults also shows that students from low-income families default at disproportionately higher rates than others. Therefore, as low-income students have increased their borrowing, defaults have continued to escalate.

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Students who attend proprietary institutions (most of which are non-degree granting) default at the highest rate among all who enroll in postsecondary education. They also default at a rate disproportionate to their share of borrowing. In a U.S. Department of Education study of borrowers who entered repayment in 1986, 48 percent of those who attended proprietary schools defaulted by the end of 1989. That year, about 30 percent of all federal student loan dollars went to students attending proprietary schools. By comparison, about 12 percent of students at four-year colleges and universities were in default, even though they received about 65 percent of the loans awarded.[61]

In a surprising twist, the research also indicates that a high loan balance or debt burden is actually inversely related to the likelihood of default. In effect, students with the lowest debts default at the highest rates. This trend occurs because these students dropped out of school early in an undergraduate program or attended a short-term program lasting less than one year.

Current government programs do not adequately address the importance of service to the community and the responsibilities of citizenship.

The issue of community service has emerged as a rallying point for those seeking to make changes in the nation's education system. In many cases, the discussion has focused on how to help recipients of government aid "give back" time and effort to fellow taxpayers—and to the nation. While these discussions are important in reinforcing the private *and* public benefits of postsecondary education, they detract from the unique benefit of community service: the personal and social value that it instillst. Regrettably, much of the discussion about community service has dwelled instead either on mandatory community service—such as military conscription—or what government aid recipients "owe" America for receiving taxpayer support. This approach to community service and mutual responsibility has tended to put a pejorative tinge on discussions linking postsecondary financing to service efforts.

The thousands of success stories gained through local and statewide programs of community service reinforce the view that the social and economic benefits of encouraging service are enormous. Programs such

CITY YEAR

One of the frequently cited models of community service is the "City Year" program in Boston. This program, which was begun in 1988 by two Harvard Law School students, features a diverse "volunteer" population whose ages range from 17-22. Volunteers come from different parts of the city and surrounding suburbs and varied ethnic and social backgrounds. Some of them are just out of high school, while others have taken a year off from school or are dropouts who are looking to go back to school and become involved in the community.

In exchange for a weekly stipend of $100 and a $5,000 scholarship at the end of their term, members of the "City Year" program perform services that range from helping out at homeless shelters to working in nursing homes, from fixing up playgrounds and parks to helping teachers—answering any needs in the community that had previously gone unanswered.

One of the remarkable aspects about "City Year" is that it is funded through the cooperative effort of members of the private sector. In what co-director Alan Khazei calls an "entrepreneurial public service venture," corporations, foundations and individuals in Boston have joined together to provide funding as well as in-kind services such as office space, legal advice, and tools.

The program has fostered a sense of citizenship not only among its volunteers but among the private sector and the community as well. The volunteers feel that they are making a difference and many of them do go on to higher education. The community receives much needed help and the direct involvement of the private sector is, in Khazei's words, "an opportunity to have a direct impact on young people and the community at large."

as City Year in Boston, hailed as a model program for encouraging young people to perform community service for a single year in exchange for scholarship assistance, are flourishing nationwide. These programs have underscored the value that service offers both to society and individuals.

The most positive discussions linking community service to postsecondary education financing have concentrated on loan forgiveness. In fact, programs that allow loan forgiveness do exist in limited instances under current law. For example, the Federal Perkins Loan Program defines several areas in which students can perform service in exchange for loan forgiveness.

While these provisions give rise to the hope that community service and student assistance programs are compatible, they also present some problems. For example, the definition of eligible programs and areas of service is so precise that few students can take advantage of these features. In addition, community service options are promoted modestly, thereby providing few incentives for students to choose service as a viable alternative. These problems are some of the reasons why fewer than 2 percent of Perkins borrowers have used the program's loan forgiveness options.

The financing system does not provide adequate assurance that students who gain access to a postsecondary education receive a quality educational product.

"Access to what?" is a frequent refrain in the educational establishment as concerns grow about how to assure quality at the nation's postsecondary institutions. The question arises because access to failure—or a program that does not improve a student's quality of life or economic well-being—can be a cruel hoax on those who choose higher education as a path to life success.

To this point, the higher education finance system has exerted only a limited influence on the effectiveness of postsecondary institutions. From the high levels of loan defaults to the failure of the system to influence the time it takes to earn a degree, the financing system has only limited effects on student outcomes. These limitations reinforce the views of those who question the "access only" approach to federal student assistance policy.

This is not to say that the system has not taken steps to address these concerns. For example, the creation in 1990 of default rate "cutoffs" as a condition of institutional eligibility for student aid programs—and their further refinement in the 1992 Higher Education Amendments—was motivated by a desire to eliminate institutions from financial aid programs if they have a high percentage of defaulters among their former students. Generally, the law cuts off institutions from student aid programs if their loan defaults rise above a certain percentage (35 percent in 1992 and 30 percent in 1993).

In the 1992 amendments, Congress instituted important changes in the system of institutional eligibility—the so-called "triad" of federal government, state, and accrediting agency oversight. The most important of these strengthened the role states play in the institutional eligibility process. As entities with extensive experience in and proximity to issues in education delivery, states are uniquely positioned to review and assess institutional conformity with the law. This new system will hopefully show dramatic improvements compared with the old system, where few institutions lost their eligibility for federal student assistance monies.

However, even this greatly improved system will likely face significant hurdles in the future. The federal government has yet to provide funds for the State Postsecondary Review Program, authorized in the 1992 amendments to help states conduct their review of institutions. Also, the process of direct federal oversight—which includes federal government auditors and program review specialists—has faced a woeful lack of staffing in recent years. The institutional eligibility and certification process also lacks status within the Education Department, further contributing to this problem.

Employers and businesses need more incentives to participate in postsecondary education financing.

As one of the principal beneficiaries of training provided by postsecondary educational institutions, American business has a major interest in financing postsecondary education and training. The importance of postsecondary job training to business and industry is clear. It is no coincidence that American corporations spend about $30 billion per year on training programs—or about 1 percent to 2 percent of average payroll

"Education is social infrastructure. It is infrastructure in the same way that roads, airports, water and sewer systems are infrastructure. If we do not preserve education and our graduate and professional education base, the crisis will come as surely as it does after a water main fails."

CLARE M. COTTON, PRESIDENT, ASSOCIATION OF INDEPENDENT COLLEGES AND UNIVERSITIES IN MASSACHUSETTS

TESTIMONY BEFORE THE COMMISSION, MARCH 18, 1992

expenses.[62] In most of this training, workers gain the skills they need to master their current job or learn new technologies.

Despite this $30 billion annual business investment, postsecondary education institutions receive only about $5 billion of this amount—or less than 20 percent.[63] This finding suggests a significant gap between what American business thinks it needs and what it believes higher education institutions can do to train its workers.

American business does understand the value of postsecondary education—though government tax policy often does not. According to a survey conducted by the U.S. Chamber of Commerce, 69 percent of companies provide some type of reimbursement to employees for tuition and other educational expenses.[64] Even so, every year higher education and the business community must fight to preserve the tax deductibility of employer-paid educational assistance under Section 127 of the Tax Code.

The postsecondary financing system does not do enough to highlight the importance of graduate and professional education to the future of the nation in the competitive economic marketplace.

Despite the great emphasis in recent years on the need to increase skills training at the undergraduate level, graduate and professional education has received far less attention from policymakers. One important reason may be that American graduate and professional education is recognized as the unchallenged leader in the world; the number and proportion of foreign students attending graduate and professional programs in the United States is a strong indicator of the esteem in which these programs are held in other nations.

Unfortunately, a failure to focus on graduate education in the short term could lead to a severe drop in our economic competitiveness because graduate schools serve two critical functions. First, they teach specialized, advanced skills that push the boundaries of innovation. Graduate and professional schools are laboratories for new technology and creative thought, which in turn leads to increased economic competitiveness. Second, these programs train the next generation of teachers—a critical function amid a growing need for workers with higher-

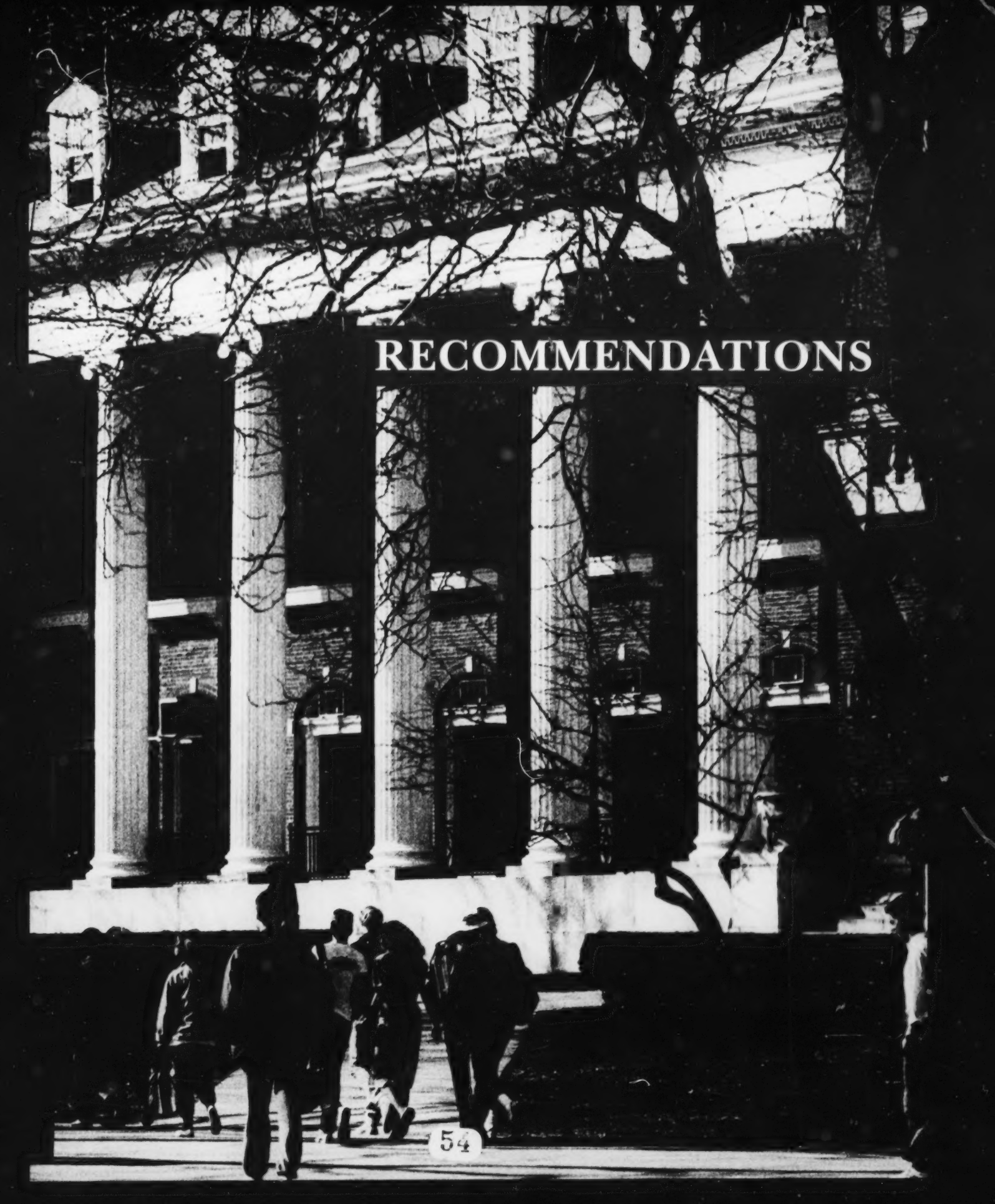
level skills. By losing our edge in these two areas, the nation's competitive capacity would suffer dramatically.

Unfortunately, financing policy for American graduate education generally lacks focus. Unlike undergraduate programs managed primarily by the U.S. Department of Education and state higher education agencies, responsibilities for graduate programs are spread across several agencies. Furthermore, basic information about the use of graduate education programs, the number of aid recipients and the effectiveness of programs is not comprehensively collected or analyzed on an interagency basis.

The prominence of graduate education financing clearly has fallen several rungs on the public policy ladder. For example, when the number of federally-supported graduate stipends rose sharply between the mid-1950s and 1970—from 1,600 to about 80,000—the number of PhDs awarded also soared. In recent years, however, researchers have seen the opposite trend take hold. As federal stipends declined in the 1980s, the number of total doctorate recipients dropped by about 10 percent. Between 1972 and 1987, the percentage of PhDs received by U.S. citizens fell from 79 percent to 61 percent in the physical sciences and from 67 percent to 41 percent in engineering.[65] The emphasis on graduate programs in the humanities and social sciences also is negligible.

One of the most troubling outcomes of the failure to focus on the needs of graduate and professional students is the monumental levels of debt many of these men and women have acquired. A 1991 study found that the average indebtedness of medical students rose from $14,622 in 1979 to $45,840 in 1990.[66] These levels of debt could have a staggering effect on the long-term choices made by graduate and professional students in choosing careers that improve the nation's overall economic health.

These trends require that all partners in the higher education finance system treat graduate and professional education concerns with a high degree of importance and urgency. It would be a sad irony if, several years from now, the nation celebrates the resurgence of undergraduate education and an increase in the skills of workers at the same time it laments the lost prominence of graduate and professional education.



RECOMMENDATIONS

III. RECOMMENDATIONS

"Education has become such an overwhelmingly important factor in the success or failure of a life that it must be made available in the most egalitarian fashion we can devise. It is no longer enough to educate mostly the rich; or mostly the children of those whose parents attended college; or mostly those in the middle-class tradition. Postsecondary education must reach out to all, embracing every person who has the talent and desire and potential to be enriched by advancing their educational attainment."

FRED R. SHEHEEN, COMMISSIONER,
SOUTH CAROLINA COMMISSION ON HIGHER EDUCATION

TESTIMONY BEFORE THE
COMMISSION, NOVEMBER 13, 1991

The National Commission on Responsibilities for Financing Postsecondary Education has concluded that one of the most important ways to meet the challenges ahead is to promote collaboration and cooperation among all sectors of society to effectively develop our human resources. We believe the following statement best summarizes our views about this national goal and its importance for the future of postsecondary education:

All aspects of American society must play a vital role in providing postsecondary education opportunities to all individuals to the full extent of their interests and abilities.

We believe the nation must commit itself to this statement of *national*—not just federal—goals in order to make college more affordable for today's families. To accomplish these objectives, the nation must promote both *accessibility* for all interested and able individuals to the diverse range of postsecondary education available, and *responsibility* to deliver education services effectively with available taxpayer resources.

Cooperation among those who provide higher education financing also is essential to the promotion of these goals. All the major players—from the federal and state governments to families, educational institutions, the private sector, and philanthropic organizations—must play a role in reaching these objectives. By working as partners, these diverse groups can achieve much greater gains than having each sector work independently.

Among the many participants in the postsecondary financing process, however, none is more important than American families. The United States is unique among nations in looking to families as the first source of financial support in higher education. Despite very real concerns about the changing definition of "family," we believe it is imperative to continue to support families as a fundamentally important component in the financing process. All others in the financing system must work to support the needs and efforts of families in financing postsecondary education.

Our views about the critical importance of the family in the education finance system are motivated by two central concerns. First, we believe that continuing to require family contributions is a sound policy and an accurate reflection of who gains from postsecondary education. We reject claims that the benefits of postsecondary education are

overwhelmingly public or private. Instead, we believe the major benefits of postsecondary education accrue equally to individuals, society, the states, and the nation, and that distinguishing among the "winners" in this process is a futile and unproductive exercise. Therefore, including families as the primary contributor in higher education financing reinforces the mutual responsibility of each element of society in the financing system.

Second, we regard families as simply too important in America's postsecondary education finance system. Unlike most other developed countries, the United States has come to rely strongly on the contributions of families in the financing process. To abandon this policy—and family contributions of more than $60 billion annually—would risk the stability of our system. As a nation, we simply cannot afford the costs associated with such a move.

But other players in the postsecondary finance system must step forward and assume key roles in helping families pay for college. We recommend that the major participants in the system assume the following responsibilities to help make college affordable again.

The Federal Role in Financing Postsecondary Education

The partnership among governments, institutions, and individuals in the financing of postsecondary education is an essential concept that must represent the foundation of future financing policy. Such a partnership requires each participant to contribute to the system's success. Given its historical role in helping to guide national policy, the federal government is in the best position to promote this partnership. It can do this by promoting a greater sense of shared responsibility for financing postsecondary education among the system's various participants.

The most productive step the federal government can take in strengthening the postsecondary education financing partnership is to lead by example. We believe the federal government bears a rudimentary responsibility to lay the groundwork for a new national compact that will improve the affordability of higher education for all Americans. By

THE RECURRING PARTNERSHIP THEME

We are certainly not the first national commission to approach the problems of postsecondary education financing from a partnership perspective. In 1973 the Carnegie Commission on Higher Education published *Higher Education: Who Pays? Who Benefits? Who Should Pay?*, an analysis of the ways in which the financing burden for higher education was shared by the major participants in the system. In the foreword to the report, Commission members described in very concise terms the task they intended to undertake. They said, "We seek in this report to look at the problems of costs and benefits more in their totality than we have before, and to present a more detailed analysis than we have before of the sharing of the cost burden."

With those simple goals, the Carnegie Commission was able to produce a compelling and influential document. The report's findings and recommendations had a major impact on higher education financing policy for much of the 1970s and into the 1980s. Today, the work is still referred to and studied as a seminal document on financing higher education in the United States.

We suspect that our efforts, like the Carnegie Commission's before us, will not be the last to promote greater shared responsibility for financing among the various participants.

"The current national policy for the federal funding of postsecondary education needs a major course correction that will permit broad participation in higher education, take advantage of the unique qualities of all sectors of American higher education, and enable America and its citizens to flourish in the highly competitive environment that lies ahead."

RITA BORNSTEIN, PRESIDENT,
ROLLINS COLLEGE

TESTIMONY BEFORE THE
COMMISSION, NOVEMBER 13, 1991

leading the way in this new partnership, the federal government will recapture the national leadership it once held in this area.

Traditionally, the federal government has worked to help low- and middle-income Americans prepare for a productive and prosperous life as an active participant in the nation's workforce. This always has been a goal of federal policy and of the Pell Grant program in particular. Despite the dramatic and, in some cases, difficult changes that have occurred in higher education financing, we see no reason to abandon this fundamental role of the federal government. The federal government is in a unique position to facilitate the coordination and implementation of a national strategy to address the needs of low- and middle-income students. Without the federal government's commitment to increased access to postsecondary education, the nation will not attain its social and economic objectives.

By promoting greater access to postsecondary education, the federal government will play a critical role in supporting the efforts of families to pay for college. The leadership the federal government could exert in this area would have enormous implications for our national interest, including a higher quality of life, increased income and earnings potential, and the innumerable other individual and societal benefits that come from further education.

Getting from there to here—from the responsibilities and goals of the federal government to the actual implementation of these ideals with programs and policies—will require a concerted effort on the part of national policymakers. To assist in the process of policy implementation, we offer the following recommendations for making college affordable again.

Make federal student aid a reliable and comprehensible source of college assistance for all Americans by developing a new concept called the Student's Total Education Package (STEP), which links to a national norm the total amount of federal aid any full-time undergraduate college student may receive annually.

The current system of federal student assistance includes a combination of grants, loans, and work-study. We firmly support this "three-legged stool" and believe the combination of grants, loans, and work-

study is an appropriate mix of direct government support and self-help for students.

However, many families and students do not see the federal student aid system as a reliable, dependable, comprehensible source of assistance. Rather, students may receive varying amounts of aid depending on the program, its particular rules, and the amount of aid for which students are deemed "eligible" through need-based formulas. The uncertainty of this process makes the federal financial aid system confusing and inaccessible for many students and families.

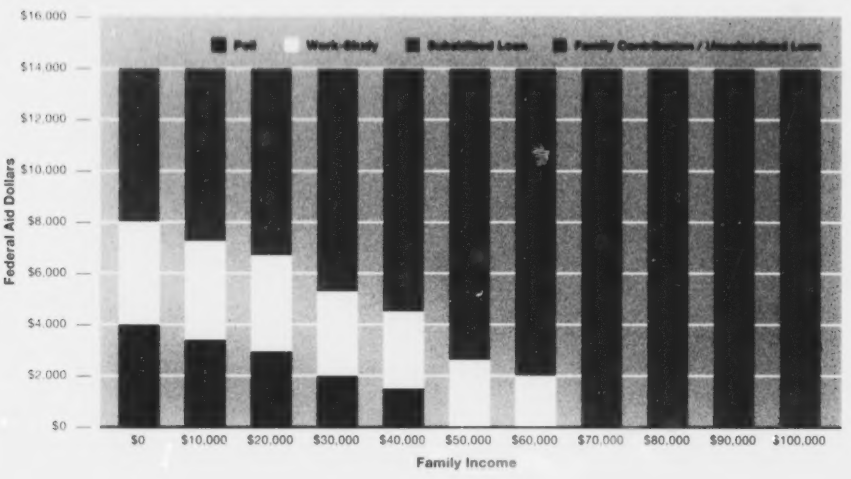
Under the simplified STEP system, all full-time undergraduate college students would be eligible for the same *amount* of federal aid, regardless of family financial status. But the *type* of aid they receive would vary dramatically, depending on their needs analysis and the cost of attendance. In general, the poorest student would receive a federal aid package based primarily on grants, work-study, and subsidized loans. The student from the middle-income family would receive a federal aid package with a mix of loans, work-study, and grants, with more aid coming from subsidized and unsubsidized loans (described below). The student from the affluent family would be eligible only for an unsubsidized loan.

The advantages of such an approach are many. Students who want to attend college—or those already enrolled but uncertain about their financial future—would know the exact amount of aid they could receive from the federal government. This amount could be widely publicized through any medium, including institutional publications and the general media. The known availability of federal assistance—a *reliable* source of assistance to attend college—would be a major breakthrough for the nation in its efforts to promote postsecondary educational opportunity for all persons. It also would benefit both traditional and non-traditional students equally, since the STEP amount would not vary by student dependency status.

Chart 5 demonstrates the actual operation of this system. The Chart shows that students would be eligible to receive the three main types of aid noted above: grants, loans, and work-study. Access to grants, subsidized loans, and work-study would be subject to the normal need analysis process for determining eligibility. Unsubsidized loans would be available to all students.

CHART 5

The Student's Total Education Package (STEP)



Note: This chart is an illustration of the likely distribution of aid under the STEP concept for dependent students. Current need analysis laws and regulations would apply in the actual awarding of aid.

The amount of subsidized loans and work-study would be considered as one figure under STEP. Existing laws and regulations governing the work-study program would continue to apply. In cases where work-study is not available, students would be eligible for higher subsidized loan levels (STEP minus the maximum Pell Grant award). The subsidized loan maximum would be calculated through the need analysis process but could never exceed the difference between the STEP amount and the combination of Pell Grant and work-study award.

■

To calculate the STEP amount, the government would use a weighted national average per-student expenditure—the amount actually spent to instruct and educate each student—at all four-year institutions.[67]

In current dollars this amount would be approximately $14,000, as illustrated by the Chart. Based on this data, the federal government also would set the STEP at $14,000—the amount of aid for which every student is eligible during that year. For students attending college less than full time, the STEP amount would be pro-rated.

The Chart also assumes an annual maximum federal grant of $4,000, and a combined maximum work-study and federally subsidized loan award of $10,000 (the difference between the STEP amount and the maximum Pell Grant award). As the family contribution increases (based on the law's current need analysis), student eligibility for Pell Grants, subsidized loans and work-study decreases. At some point, the family contribution reaches a point high enough that the student no longer is eligible for any subsidized aid, such as a grant, subsidized loan, or work-study. However, even for these families, unsubsidized federal loans would be an option to help ease the burden of paying for college.

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"I think that my family is caught in the same trap as many of my peers. They make too much money to be considered for most federal and state grants, but not enough to really afford to send one student to college, much less the two or three that many do in fact provide for."

THOMAS A. GUIDA, STUDENT, BOSTON COLLEGE

TESTIMONY BEFORE THE COMMISSION, MARCH 18, 1991

Here is a typical example for students enrolled at a college where the total cost of attendance (tuition, fees, room, and board, or the "sticker price") is $7,000. A very poor student with no required family contribution would receive a federal grant of $4,000 and be eligible for $3,000 in work-study or subsidized loans. A middle-income student (with some family contribution required) would receive a smaller grant but also could be eligible for work-study and subsidized loans. An upper-middle-income student (whose family contribution is much higher) would receive no grant but could receive some assistance through subsidized and unsubsidized loans and/or work-study. An affluent student (with no need under existing need analysis calculations) could not receive a grant, subsidized loan, or work-study funding but could take out an unsubsidized loan.

If the sticker price is higher than the STEP amount—say $18,000—the poor student could receive the maximum grant ($4,000), and the maximum amount of subsidized loans and work-study ($10,000). Together, these three sources would provide total aid of $14,000. The difference would have to come from other sources, such as state or institutional aid or an unsubsidized loan.

Regardless of family income, however, STEP assures that all students could receive up to $14,000 in federal aid, with the need analysis system determining the exact proportion of aid. Of course, in no case could students receive more than the cost of attendance.

It is important to emphasize that the STEP concept reflects the *federal* commitment to student assistance. In many cases states and institutions will offer their own financial aid resources to students independent of the federal contribution.

Further, we want to underscore the fact that STEP would apply only to *undergraduate college students.* It would not affect loan amounts for graduate students or the parents of undergraduate students (these are described below).

For non-collegiate postsecondary students (those attending non-degree granting institutions), we recommend that the standards established in the 1992 Higher Education Act reauthorization continue to apply. This means that students would continue to have broad access to non-collegiate programs of study—which we believe are an important component of American postsecondary education—by remaining fully eligible for the Pell Grant program. However, students attending these

institutions would not be eligible for the increased access to subsidized loans as envisioned under the STEP concept. We believe that the loan limits for subsidized (Stafford) student loans that were created in the 1992 reauthorization are well-suited to meet the needs of students attending non-degree granting institutions and should be retained.

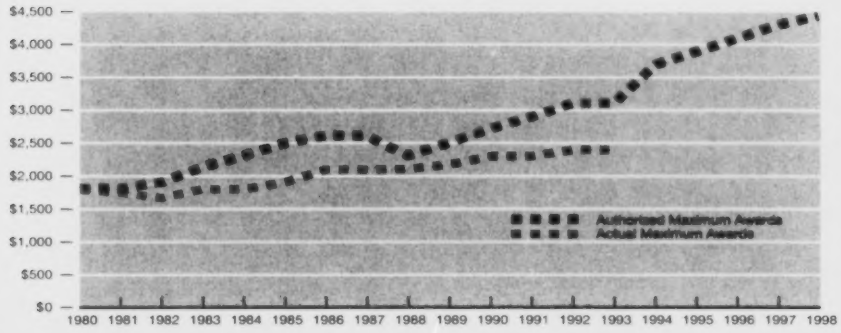
Remove uncertainty from the Pell Grant program by ensuring that all eligible students receive grants at levels authorized by federal law and by tying future maximum grant levels to what students pay for college.

Congress and the President have acknowledged the critical need to increase student grants for low- and middle-income students in order to meet national education goals. This commitment was reaffirmed just last year, when an overwhelming majority of lawmakers voted to reauthorize the Higher Education Act of 1965. As part of that law, Congress approved a maximum Pell Grant amount of $3,700 in 1993-94, up from $3,100 in 1992-93.

However, the maximum federal Pell Grant next year will actually only be $2,300, far below what Congress has deemed necessary for meeting America's needs. This difference is the result of a gap between what the law allows and the grant funds that are actually appropriated in the federal budget.[68] The uncertainty created by this gap between actual and authorized grant levels is enormous. In many cases, it limits access to postsecondary education for low- and middle-income students.

CHART 6

Authorized versus Actual Maximum Awards Under the Pell Grant Program



Source: 1991–92 Unpublished data and estimates from the Office of Student Financial Assistance, U.S. Department of Education 1982–83 to 1990–91, and Office of Student Financial Assistance, U.S. Department of Education, Pell Grants End of Year Reports, Basic Grant Institutional Agreement and Authorization Reports, 1991.

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We recommend that Congress and the President take steps to ensure that students receive the amount of grants already authorized in the law. For the 1993-94 academic year, this means eligible students should receive a grant of up to $3,700. The federal government should view this grant level as an unbreakable promise that promotes greater opportunities for postsecondary education in our nation.

We strongly believe such a national commitment will result in many positive effects. It will greatly expand access to higher education, resulting in numerous economic and social benefits. In addition, grants finally will become available to students with the same degree of certainty that they view loans, tax deductions, and other federal policies. This commitment also would increase transfer rates between two- and four-year institutions—one of the most important concerns of the higher education community—because of the reliability built into the student aid system through this renewed support for grants. And we believe it would go a long way toward addressing the needs of adult and non-traditional students who—because they cannot count on parental contributions—rely heavily on Pell Grants as a major source of support.

Equally as important, we support setting future maximum Pell Grant award levels at an amount equal to 75 percent of the national median cost of attendance at public four-year colleges.

Under the current program, the maximum Pell Grant level is set at a pre-determined amount—for example, $3,700 in 1993-94, an arbitrary figure that bears no relationship to the actual costs paid by students and families. Further, there is no particular "magic" in the annual increases in maximum grant levels contained in current law—they were simply increased in a linear fashion by the Congress based on prior law.

By linking the maximum grant to the national median cost of attending public four-year colleges, students would receive a reliable amount of assistance directly related to the actual costs they pay to attend college. We cite costs at four-year public colleges because they are the principal point of access to a bachelor's degree in this country.

This 75 percent figure is based on the history of the federal commitment to access. The high point of federal support is generally seen as the 1979-80 academic year, when the maximum Pell Grant award equaled 82 percent of the national average cost of attendance at a public four-year college. By comparison, in 1991-92 the figure was only 44 per-

cent. Thus the 75 percent level merely restores some of the previous federal commitment to access, which has steadily eroded since 1980.

To illustrate how this formula works, in 1991 the national median cost was $5,400 to attend a public four-year institution.[69] If this formula were applicable that year, the maximum grant would have been $4,000 (rounded to the nearest $100). To protect the program against a drastic short-term increase in costs, we further recommend that this figure be calculated on a three-year rolling basis.

These short-term steps designed to remove uncertainty from the grant process should be accompanied by other actions to strengthen grants and improve the prospects of college attendance for all interested and able students. We believe government should:

- **Consolidate the current Pell Grant program with the Federal Supplemental Educational Opportunity Grant (SEOG) Program.**

Bolstering the Pell Grant program in the manner described in this report would essentially make the SEOG program redundant. While SEOG has played an important historical role in the federal student aid system, the existence of a separate program requiring an additional appropriation appears unwise. The savings achieved by eliminating this program could offset some of the increased costs of our recommendations and would simplify the federal system by providing only one direct federal grant program.

- **Convert the Federal Perkins Loan Program to a grant program by depositing all loan collections into an institutional endowment fund that could be invested and used to provide grants for low- and middle-income students.**

The array of new programs and policies envisioned in this report will reduce the need for the government's Perkins Loan program. Phasing out Perkins Loans will greatly simplify the system and promote greater efficiency in the delivery of federal aid.

In recent years, institutions have accumulated a substantial amount of Perkins funds, and we see many beneficial uses for this money. To take advantage of the estimated $6 billion in outstanding Perkins loans, the Commission suggests that all future repayments by students go directly into an institutional endowment fund. Colleges and universities then could use these funds to make supplemental grants to students.

Under such a program, institutions would give top priority to low- and middle-income students. As funds are depleted over time, schools could further restrict funds only to the neediest youth, rather than "watering down" the initiative with smaller grants to a broader category of students.

Simplify the complex student loan system by offering a single program that makes direct loans to students and parents and provides "user friendly" repayment options.

The current Federal Family Education Loan program contains five different components: the Federal Stafford Student Loan program, the Supplemental Loans for Students program, the Parent Loans for Undergraduate Students program, an unsubsidized loan program, and a consolidation loan program. The Federal Perkins Loan program, and the Federal Direct Loan Demonstration program, also are part of the Title IV loan structure under the Higher Education Act.

We believe there needs to be a radically simplified federal student loan program, one that contains just three components. These are:

- a subsidized student loan program;
- an unsubsidized student loan program;
- an unsubsidized parent loan program.

These three components of a single federal student loan program would share many common features. First, repayment of loans would be allowed under two main options: income-contingent repayment and conventional repayment. This flexibility is designed to ease the burden of repayment for students and their families and offer them the best possibility for successful repayment of their loan obligations. These options also could dramatically reduce student loan defaults.

Income-contingent repayment would be an attractive option for many borrowers. Students could repay their loans based on a percentage of their adjusted gross income, thereby making default considerably less likely. The repayment percentage would be tied to a percentage of the borrower's income. Unpaid principal would be forgiven after a 25-year-period to prevent lifelong servitude to student loan repayment. Cross-subsidization (high income borrowers subsidizing low income borrowers) would not be allowed because no borrower would pay more than the loan principal

plus interest. There would be no penalty for prepayment.

Students who choose this option would repay their loans through the Internal Revenue Service, which would act as a loan servicing/collection agency by remitting funds collected to the Treasury. This would enormously simplify the repayment process for borrowers by allowing them to remit their payments through normal income tax withholding.

The Secretary of Education, in conjunction with the Commissioner of the IRS, should conduct a study of the percentage of income that borrowers should be required to repay.[70] This study would help determine the percentage most likely to ensure repayment of loans within 15 years. The Secretary also should provide examples of projected repayment terms and amounts to each borrower contemplating this option.

INCOME-CONTINGENT REPAYMENT: AN ILLUSTRATION

How an income-contingent student loan would be repaid is dependent on a variety of factors: the interest rate of the loan, the salary of the borrower, the increase in salary over time, the percentage of earnings that would be applied to repayment of the loan, the amount borrowed, and others. Each has to be taken into account in determining the precise repayment pattern.

The charts shown here illustrate one possible way this would work for different kinds of borrowers. It is important to note that these charts merely illustrate some of the possible repayment scenarios. Some borrowers will likely pay off their loans more quickly because of higher earnings growth or lower loan balance on graduation. Others—particularly those who enter very low-paying fields or who experience only modest increases in income over time—will likely take longer to repay their obligation. Those who have still not repaid the principal loan amount after 25 years would have their loans forgiven.

Typical Income Contingent Loan Repayments

CHART 7

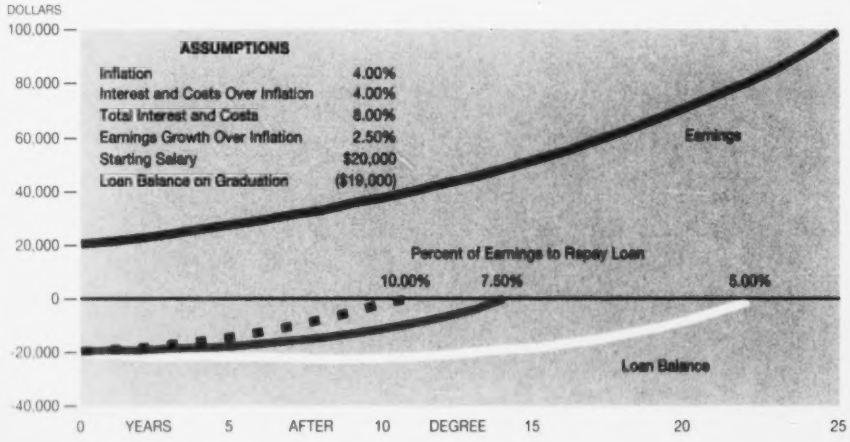

CHART 8

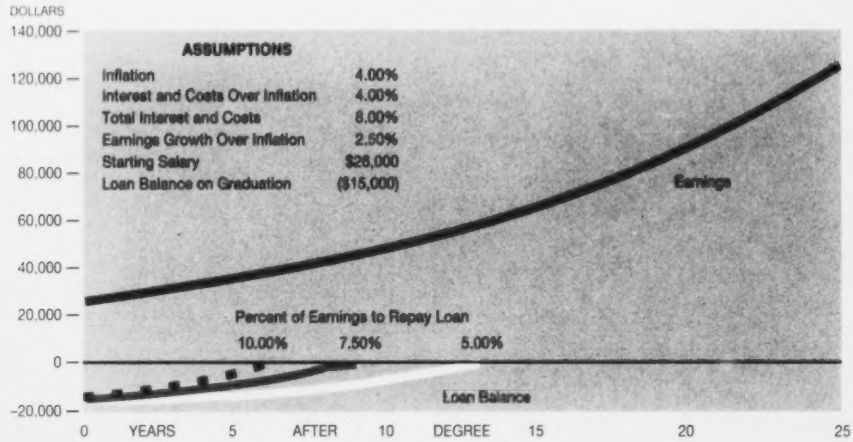

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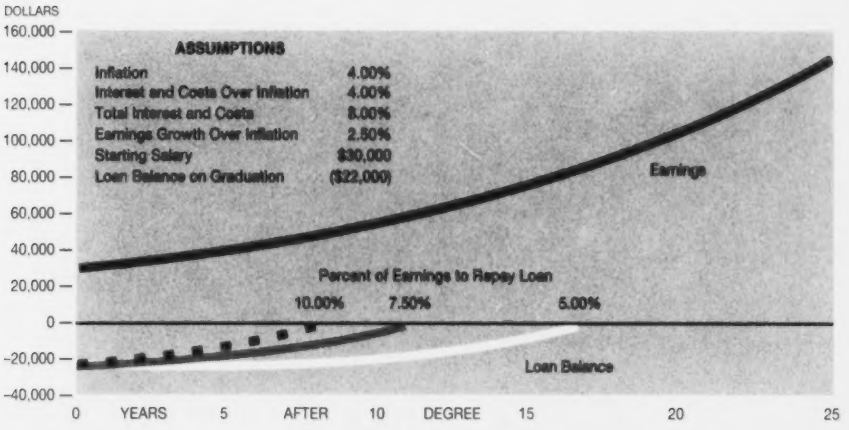
CHART 9



Conventional repayment also would remain as an option for students. Under this option students could choose from a menu of repayment terms, including normal 10-year amortized repayment (with no penalty for prepayment), extended repayment (where students and parents could choose to repay loans over a longer time up to 20 years), and graduated repayment (where students and parents could pay back their loans in larger increments). Conventional repayers also could choose to convert to an income-contingent program at any time during the repayment cycle.[71]

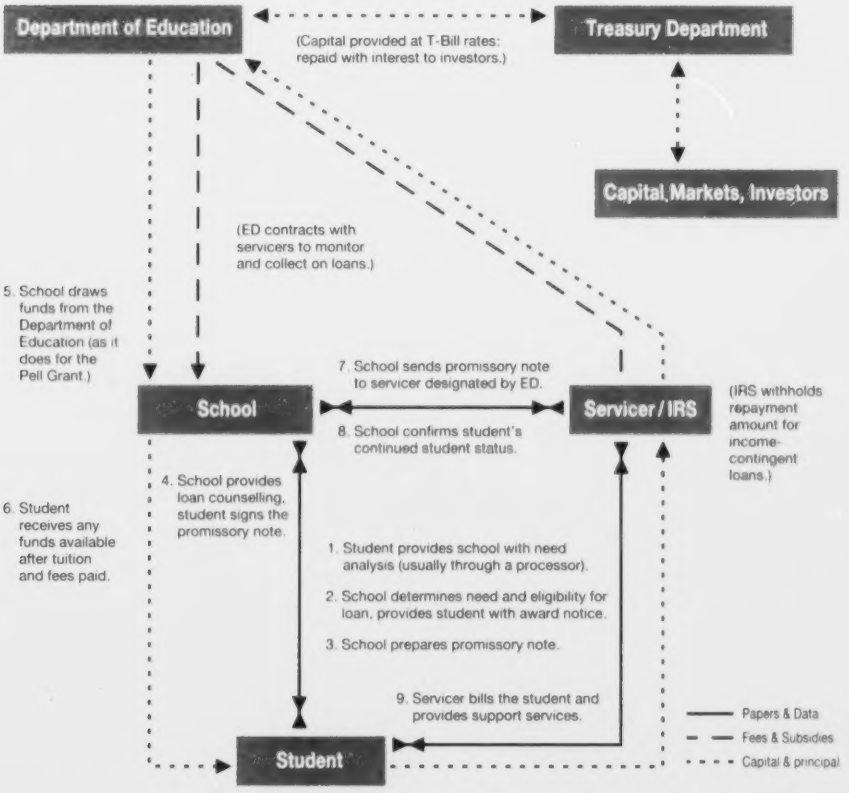
We also recommend that the system automatically move borrowers from a conventional to income-contingent loan if they fall behind on their payments. This would offer students a "second chance" to fulfill their obligation and, hopefully, avoid defaults.

The second shared feature of this new system is that each component program would receive capital through Treasury borrowing from the sale of government securities to investors. Moving away from the current system of private sector capitalization—with heavy government subsidies for banks and guarantee agencies—would generate savings of at least $1 billion per year, according to the General Accounting Office and other official sources (see Appendix). Such a "direct loan" program would serve as a replacement—not an additional—entitlement program under the federal budget.

Third, institutions would serve as loan originators and as agents for the federal government. Colleges and universities would originate loans in a manner similar to the mechanisms used in the current Perkins Loan and Direct Loan Demonstration programs.

Fourth, each loan would be serviced and collected either by the IRS (for income-contingent loans) or private agencies through contractual arrangements with the federal government. These agencies would provide normal loan servicing functions and develop default prevention programs as well as plans for the collection of defaulted loans. The federal government, through the Secretary of Education, also would be required to establish and maintain a data system of all student loans, thus ensuring a central source of information on all borrowers.

CHART 10


Department of Education
(Capital provided at T-Bill rates; repaid with interest to investors.)
Treasury Department
Capital, Markets, Investors
(ED contracts with servicers to monitor and collect on loans.)
5. School draws funds from the Department of Education (as it does for the Pell Grant.)
7. School sends promissory note to servicer designated by ED.
School
Servicer / IRS
(IRS withholds repayment amount for income-contingent loans.)
8. School confirms student's continued student status.
4. School provides loan counselling, student signs the promissory note.
6. Student receives any funds available after tuition and fees paid.
1. Student provides school with need analysis (usually through a processor).
2. School determines need and eligibility for loan, provides student with award notice.
3. School prepares promissory note.
9. Servicer bills the student and provides support services.
Student
Papers & Data
Fees & Subsidies
Capital & principal

The differences between the three basic loan programs are based largely on the level of subsidies for students or parents and the maximum amounts they are eligible to borrow. These are described below.

Subsidized Student Loan Program

The central feature of this program is that interest would not accrue while the student is in school. Interest rates on loans made in this program would be equal to Treasury bills plus a fixed amount of the government's non-default costs of the program. This fixed amount should be no more than 2 percent.

Annual loan limits for collegiate students borrowing through the subsidized loan program would equal the difference between the STEP amount and the combination of the Pell Grant and work-study award.[72] Both graduate and undergraduate students could receive funds under this program. Both also would be eligible for loan forgiveness through community service in a new program outlined later in this chapter.

Unsubsidized Student Loan Program

The unsubsidized student loan program would allow interest accrual throughout the life of the loan, with interest calculated in the same way as subsidized loans. Students could choose to begin repayment of the unsubsidized loan within 90 days of origination or defer repayment but continue to accrue interest while in school.

The maximum annual amount that undergraduate college students could borrow through this program would be equal to the STEP amount. The cumulative limit for undergraduate borrowing under both the subsidized and unsubsidized loan programs should equal the average STEP amount times the maximum number of years of eligibility for borrowing (five years under existing law).[73]

Similar to the subsidized program, borrowers in the unsubsidized loan program also could seek loan forgiveness through community service.

Unsubsidized Parent Loan Program

This program would have the same borrowing and interest terms as the unsubsidized student loan program. Repayment would begin within 90 days of origination. However, parents would not be eligible for income-contingent repayment.

Under the program, parents could borrow funds up to the total cost of attendance, minus any other financial aid received. Program administrators also would set a maximum level for cumulative parent borrowing that takes into account a reasonable debt-to-income ratio for the average family.[74]

TEACH FOR AMERICA

Of the thousands of community service programs nationwide, one that has received considerable attention is Teach For America (TFA), a New York-based organization founded by Wendy Kopp soon after she received her bachelor's degree from Princeton University. Through its efforts, funded by corporate and foundation donations, TFA is building a national corps of dedicated teachers and sending them to teach in our nation's most troubled urban and rural schools.

The program focuses on recruiting graduating college seniors, but anyone with a bachelor's degree is eligible to apply, and a degree in education is not required. Those who are selected (after an intense application and screening process) sign on for a two-year commitment that is designed to benefit the children, the communities and the teachers.

Throughout the program, teachers are constantly given instruction and guidance on teaching techniques and theories. Regional conferences, workshops, and course work at local universities are just some of the support mechanisms available to participants in TFA.

TFA teachers receive salaries comparable to other teachers in the area. However, as many reports and studies have pointed out, the starting salaries of many teachers in this country have been a major disincentive for encouraging capable young people into teaching as a career. Programs like TFA would greatly benefit from proposals such as the Commission's loan forgiveness plan, since the attractiveness of significantly reducing their student loan debts could greatly increase interest in TFA-type programs for recent college graduates.

Create a Community Service Incentive Program to promote student service in exchange for loan forgiveness, thereby fostering the dual goals of scholarship and citizenship.

One of the federal government's most important roles is to promote a greater sense of community values and partnership among individuals, states, communities, and the private sector. Many of these service programs already are flourishing at the local and state level. Recently the federal government took an historic step to foster their growth through creation of the Commission on National and Community Service, which offers small grants to organizations, institutions, and states to support such activities. We applaud the foresight of federal policymakers in understanding the need for such an entity, and we also see an opportunity to expand these efforts.

From its unique position in society, the postsecondary finance system should strongly support community service and the responsibilities of citizenship. Promoting these values helps underscore the partnership that exists within the financing system and strengthens our national commitment to the democratic principle of service. National economic and social needs would also be addressed through a stronger emphasis on community-oriented values.

As envisioned here, all student borrowers would be eligible to participate in this new effort, called the Community Service Incentive Program. Eligibility would include both graduate and undergraduate students, as well as borrowers with both subsidized and unsubsidized loans. Under this program, students who perform community service in approved local areas or programs would not be required to make loan payments during their period of service. Interest also would not accrue during this time.

To provide another incentive for students, we recommend forgiveness of 20 percent of loan principal for every year of participation in the program. Students could participate for three years, with the potential to reduce total loan principal by up to 60 percent. In limited instances, the program also could offer complete loan forgiveness for those performing five years of service in a number of designated "critical need" areas.

The number of slots in which students can perform service in exchange for loan forgiveness should be fixed in the law. This will help

"I continue to be a proponent of a loan program with a variety of payback mechanisms that fosters a sense of civic obligation in the borrowers by encouraging public service or in professions where qualified practioners are in short supply. This will not work for all students, and should not be the only way for students to borrow money. But it is an alternative that should be available more for students who want it."

RICHARD F. ROSSER, PRESIDENT,
NATIONAL ASSOCIATION OF
INDEPENDENT COLLEGES AND UNIVERSITIES

TESTIMONY BEFORE THE
COMMISSION, MARCH 18, 1992

to limit the costs of the program, particularly in the first few years of operation, and will allow program administrators time to develop the necessary procedures for implementing a large-scale national program. As demand for loan forgiveness is measured over several years, the number of slots could be adjusted upward or downward.

We further recommend that the Commission on National and Community Service study the array of loan deferment and forgiveness provisions in existing law. Through such study, the Commission could examine the use of community service in existing programs and develop recommendations for their broader implementation. As experts in this subject matter, the Commission also could develop criteria for eligible programs participating in the Community Service Incentive Program. As the nation's first national coordinating body and "infrastructure" on community service efforts, the Commission on National and Community Service is ideally positioned to conduct such a study.

The federal government will find a program like the Community Service Incentive Program easier to implement under the federally-capitalized, direct loan system envisioned in this report. By phasing out the current system, the government would no longer need to provide payments to lenders during the student's community service involvement.

This program also will work well in a system where income-contingent repayment is an option for borrowers. Under an income-contingent repayment system, borrowers choosing lower paying, public service-type jobs would not be unduly burdened by fixed student loan payments, since these payments would be based on income and not on the amount borrowed. We believe this will be a powerful incentive for borrowers to choose careers in teaching, law enforcement, or any of numerous other areas where the need for skilled college graduates is essential. Thus the Community Service Incentive Program would complement the public service incentives provided through an income-contingent repayment option.

Create new tax-related incentives to encourage college savings and increase postsecondary education opportunities, such as allowing penalty-free withdrawals from Individual Retirement Accounts to pay for college expenses and removing the income eligibility ceiling on the use of Series EE U.S. Savings Bonds for education.

"America needs to become a nation of citizens who save for the future. Therefore, any plan such as IRAs should be instituted and/or expanded to encourage families to save for college expenses."

OSWALD P. BRONSON, SR., PRESIDENT, BETHUNE-COOKMAN COLLEGE

TESTIMONY BEFORE THE COMMISSION, NOVEMBER 13, 1991

We believe the Tax Code provides a fundamentally important means to encourage greater family support for students and to ease the burden of students paying for college. While the Tax Code does contain some incentives to finance higher education, the signals it sends to families and students are often confusing. For example, a key provision exempting employer-paid educational assistance (up to $5,250 in tuition and other expenses in 1993) has never been made a permanent part of the Tax Code. The need to extend this provision annually makes it nearly impossible to promote widespread use.

In a similar way, the Tax Code also must provide clear, unambiguous signals about the importance of family investments in postsecondary education. We recommend several tax-related vehicles as key components of this national strategy.

First, the Commission calls for allowing penalty-free withdrawals from IRAs to pay for higher education expenses, a plan similar to one proposed by Senators Lloyd Bentsen (D-TX) and William Roth (R-DE) in 1992. Under that proposal, qualified higher education expenses—tuition, fees, books, supplies, and equipment—could be paid for via early withdrawal from an IRA. Such funds could pay for the college education of the taxpayer, his or her spouse, the taxpayer's child, or the taxpayer's grandchild.

This recommendation assumes, but is not contingent upon, restoration of the deductibility of IRA contributions for all taxpayers, a provision that was eliminated in the 1986 Tax Reform Act. The restoration of this provision would greatly expand the contributions to IRAs and therefore make the provision allowing penalty-free withdrawals for college expenses available to a much broader base of eligible families.

Second, we support the existing law offering tax benefits to families who purchase Series EE U.S. Savings Bonds for college expenses, but this provision could use some refinement. The government should simplify the process of actually obtaining a Savings Bond by reducing paperwork and promoting greater consumer accessibility. The federal government should do a much better job of promoting the use of Series EE Bonds for college through media campaigns, financial aid workshops, and other public information efforts.

In addition, the Commission favors the removal of income eligibility ceilings under this provision. Savings Bonds are a practical, convenient

vehicle to save for college, and government should encourage their use at all income levels.

Third, Congress and the White House should restore the deductibility of interest on student and parent loans that was eliminated in the 1986 Tax Reform Act. If the Tax Code supports deductions for home ownership and business expenses (largely *consumption* expenditures), it surely must support the *investment* in education made by students and parents. Borrowing money to pay for college—when necessary—is in our long-term national interest and should be acknowledged in the Tax Code. Restoring this deduction would be especially beneficial to adult, non-traditional students who frequently must borrow to finance their lifelong learning efforts.

Fourth, we call for an end to the taxation of scholarships and fellowships at the post-secondary level. As a result of the 1986 Tax Reform Act, the amount of scholarship and fellowship dollars used to pay for room, board and other living expenses became part of an individual's gross income for tax purposes. Though tuition and equipment are exempt, this government policy poses many problems, particularly for graduate students, who typically receive such stipends for teaching or research assistantships. Full restoration of the tax exemption for scholarship and fellowship grants is an important step that will improve the educational prospects of both undergraduate and graduate students with limited financial resources.

Fifth, we support making permanent Section 127 of the Tax Code, which allows for the deduction of employer-paid educational assistance. This provision represents an important linkage between the postsecondary financing system and the needs of the nation's employers and businesses. To promote its use, employers also should promote this provision as a part of employee benefits packages.

Sixth, the Commission encourages the federal government to develop a national campaign to promote savings across the board. This campaign, which would include public service announcements in the media and statements by policymakers, should emphasize the personal and societal benefits of increased saving. In addition to the incentives for savings recommended here, we also believe that this national campaign should emphasize private sector savings instruments (which often have higher rates of return) and passive savings programs through employers.

TITLE IX

Title IX contains several important programs, including:

- Grants to Institutions and Consortia to Encourage Women and Minority Participation in Graduate Education
- Patricia Roberts Harris Fellowship Program
- Jacob K. Javits Fellowship Program
- Graduate Assistance in Areas of National Need
- Faculty Development Fellowship Program
- Assistance for Training in the Legal Profession
- Law School Clinical Experience Programs

Finally, we believe that Congress and the President should reduce the confusion now common in tax law which discourages charitable giving by those seeking to "give back" to higher education—and society—some of what was gained through the college experience. This would include repealing the current alternative minimum tax treatment of gifts of appreciated property, since current law discourages people from making gifts to charitable organizations such as higher education institutions.

Focus greater resources on graduate and professional study by repealing the taxation of scholarships and fellowships, offering graduate students greater flexibility under federal student loan programs, and funding programs under Title IX of the Higher Education Act.

We are concerned that graduate and professional study has increasingly become an afterthought in the minds of policymakers. In large part, this inaction stems from the real budgetary constraints placed on programs designed primarily for undergraduate students. The Commission recognizes the immediate needs of students at the undergraduate level—particularly the need for greater subsidies—but does not support policies that allocate those subsidies at the expense of graduate students. It is clear that an equal degree of urgency exists regarding graduate financing needs, though addressing these problems requires methods tailored specifically to graduate students and programs.

In general, graduate students should participate as full partners in the subsidized and unsubsidized loan programs offered by the federal government. But because of the higher costs faced by those at the graduate and professional levels, higher limits on both subsidized and unsubsidized loans are necessary for these students. One option we favor is allowing graduate and professional students to borrow the equivalent of existing loan maximums under the subsidized loan program and up to 100 percent of their total educational costs through unsubsidized loans.[75] By retaining current subsidized loan maximums, graduate students then could meet any additional borrowing needs through the unsubsidized loan program. We also support full inclusion of graduate and professional students in the Community Service Incentive Program and in all loan repayment options, including income-contingent repayment.

THE 'TRIAD' SYSTEM OF INSTITUTIONAL ELIGIBILITY

In order to become eligible to receive federal student aid dollars, educational institutions must undergo three tests defined in federal law. First, they must be licensed by the state in which they operate. Second, they must be accredited by an agency that is approved by the Secretary of Education. And third, they must prove that they are eligible as an institution (as defined in the law) and certified as being administratively capable and financially responsible. This process of state licensing, accreditation, and federal eligibility and certification is frequently called the "triad" of institutional eligibility.

As noted earlier, the Commission also recommends an end to the taxation of scholarships and fellowships. We believe that the policy of taxing scholarships and fellowships undermines the stated purpose of scholarships and fellowships—to promote investment to meet future economic and social needs. This policy is especially punitive for graduate students, who rely heavily on these scholarships and fellowships to reduce the high cost of post-baccalaureate study.

Further, we recommend full funding of graduate programs under Title IX of the Higher Education Act at the congressionally-authorized levels. These programs, which encourage greater opportunity for graduate study for all interested and able Americans, are an important link in efforts to increase the nation's proficiency in science, engineering, the social sciences, and arts and humanities.

Eliminate fraud and abuse by strengthening accountability measures, repairing structural problems in student aid programs and providing the necessary resources to implement existing accountability policies.

The oversight system for federal aid programs, which relies on a "triad" of review of postsecondary institutions, has been the subject of considerable criticism in recent years. In part, this criticism was sparked by reports that students enroll in postsecondary educational programs offering little or no prospect for advancement—either educationally or economically. In some documented cases, students have enrolled in programs and taken out federally guaranteed student loans only to discover that no program existed at all.

We believe that fraud and abuse could severely damage both the integrity of programs and the lives of students harmed by illicit and immoral actions of some institutions. Left unchecked, these abuses only will weaken the postsecondary education financing system and lower our ability to compete in a global economy. For this reason, the Commission has emphasized accountability as a high priority.

Congress also has emphasized accountability and took several important steps in the 1992 Higher Education Act reauthorization to address these concerns. This was made possible by implementing changes to all three parts of the triad process, including refinement of

LINKING LOAN DEFAULTS AND POTENTIAL FRAUD

The question of the extent of fraud and abuse in federal student aid programs has been frequently explored in recent years. Critics have pointed to the ever-increasing levels of student loan defaults—which now top $3 billion per year—as evidence of fraud and abuse on the part of some institutions. However, defenders of the program point out that most students default because they do not have the resources to repay their loans.

Congress has taken important steps to limit the student loan default problem. In 1990, default rate "cutoffs" were implemented as a condition of institutional eligibility for student aid programs (and were refined in the 1992 Higher Education Amendments). The law requires institutions to be eliminated from the programs if their default levels are above a certain percentage.

However, the question still remains: are defaults a good indicator of potentially fraudulent activities? One piece of evidence comes from the state of New Jersey. In 1988 the state identified 26 institutions as having the highest default rates in the state. In subsequent audits of those schools, the state subjected 22 to administrative sanctions, including, in some cases, suspension or termination. Common problems uncovered included missing documentation from student files, late or never paid tuition refunds, high rates of withdrawal during the first quarter of the program of study, and failure to notify lenders of student withdrawal.

the process for approving accrediting agencies and creating a State Postsecondary Review Program to assist states in the state licensing process. It is imperative that these new provisions be implemented and permitted time to work.

The Commission believes many of our earlier recommendations will help limit cases of fraud and abuse. For example, in our proposed student loan program, the consolidation and streamlining of existing programs will help limit fraud by institutions that use the current system's complexity for illicit means.

In addition, we propose measures that can help address the problems of fraud and abuse head-on. We recommend full funding of the State Postsecondary Review Program, created during the 1992 reauthorization to help states in the licensing and oversight of postsecondary institutions. As partners of the federal government in the design and delivery of student aid, states bear a responsibility to assist in the oversight process. Because of their historical role as the primary providers of education in America, states also are well equipped to handle this function.

Further, we believe the Department of Education must devote more attention to the process that deems higher education institutions eligible for participation in financial aid programs. One way to assure this is to create a line item in the Department of Education's annual budget specifically for reviews, audits, and investigations. By annually appropriating funds specifically for these functions, the Congress can assure that the important measures that it has passed to limit fraud and abuse are fully implemented by the Department.

Create and distribute computer software that estimates the components of a student's financial aid package, and establish a new interagency council to coordinate student aid with other federal benefits, thereby improving the flow of information about federal aid to students and families.

The recent steps taken by Congress in the 1992 reauthorization of the Higher Education Act to simplify and improve student aid need analysis and delivery provide a strong base for the future. We support many of the efforts taken by the Congress, including the elimination of home and farm assets from need analysis calculations, the development

WHY DO WE NEED A COUNCIL ON THE COORDINATION OF FEDERAL HUMAN RESOURCE PROGRAM BENEFITS?

One of the recurring complaints about federal human resource programs in recent years—from student aid programs to Food Stamps, AFDC, vocational rehabilitation, and numerous others—is that the eligibility processes and delivery mechanisms for these programs vary widely. There is little coordination among these programs, and in some cases even within a single program. The result is a complicated, inefficient system that hinders access to postsecondary education. As a 1988 study entitled *Women, Welfare, and Higher Education* observed, "Two AFDC recipients attending the same college, with the same income, the same number of children, the same educational costs, the same student aid funding, and even the same caseworker" can end up being treated differently under the eligibility system now in place.

The Commission has learned of several cases of the system's failure to coordinate student aid and other federal human resource program benefits. One example is Elizabeth Acevedo, a 39-year-old single mother of two children who recently obtained an associate's degree from Miami-Dade Community College. In testimony before the Commission, she explained, "[My welfare caseworker] knew I was a student and knew I was on financial aid and was applying for loans. So when I took all of that information to him he said that, because of the loan—which was about $1,300 a semester—they would need to cut down on what they were giving me. So I went from [approximately] $175 a month to $18 a month in Food Stamps."

of a single needs analysis for all student aid programs, and the expansion of a simplified needs test for low- and middle-income families.

In looking beyond the current law, we see the need for even greater refinement—including at least two additional steps to increase postsecondary education opportunities. One step is the greater use of computer software to help parents and students plan for college expenses. One example of such software is a program called "The Estimator," which is being developed by the U.S. Department of Education. This software allows junior and senior high school students and their parents to sit down at a computer terminal, input a modest amount of information about family and personal finances, and obtain an immediate estimate of the expected family contribution and the approximate levels of aid available from various sources. In our view, students and their families should have easy access to these programs, most likely through wide distribution to school guidance counselors.

This software also should become part of a larger database with information for students and parents about the costs of college, the academic requirements of various institutions, and the availability of assistance. Educators could incorporate this program into the computerized database and information line established under Section 409A of the 1992 Higher Education Amendments.

To help federal programs run more smoothly, we also recommend establishing a Council on the Coordination of Federal Human Resource Program Benefits to promote communication among various agencies. This council should include representatives from the Departments of Education, Agriculture, Health and Human Services, Housing and Urban Development, Veterans Affairs, and other relevant departments and agencies.

We envision that the council would coordinate the eligibility process and service delivery for many federal human resource programs, including federal student assistance, Aid to Families with Dependent Children, Food Stamp benefits, veterans assistance, and other programs. It also would develop ways to better monitor and evaluate coordination of these programs. The council also should create a uniform system of data protocols and eligibility standards for federal programs and implement a process of data sharing and categorical exemptions. Through this work, the council might design a single set of forms or procedures to use

when applying for benefits under these human resource programs. If needed, it also could develop a centralized data system to share information among federal agencies.

Implement the National Early Intervention Scholarship and Partnership Program created in the 1992 Higher Education Amendments.

This program, which provides matching funds to states to encourage the creation and expansion of early intervention initiatives for at-risk students, is a vital component of efforts to improve the social and economic prospects of the nation. The failure to improve the life prospects of these youth will have disruptive and expensive consequences for the country.

The National Early Intervention program is also an excellent example of the type of educational partnership between the federal government and the states that should be expanded. Both bear a responsibility and share in the rewards of improving the postsecondary educational opportunities of at-risk youth.

Roles of Other Financing System Participants

States, postsecondary institutions, the private sector, and philanthropy all work as partners with the federal government in efforts to help families and students pay for college. The roles of each of these players in the financing process are essential to the national goal of providing opportunities for postsecondary education to all individuals to the full extent of their interests and abilities.

The Commission has received extensive testimony and engaged in considerable discussion concerning the roles of these other financing system participants. However, as an agency operating within the federal government, we believe our primary responsibility is to make recommendations related to federal policy. Still, as a *national* Commission, we also have a responsibility to address—at least in general terms—the roles of the other participants in the financing process. We therefore offer our perspectives on each of the other major participants in this process:

THE STATE ROLE

For decades, states have assumed the key role of providing educational programs for their residents. Yet the dominance of the federal government in providing need-based student aid has tended to overshadow the essential role states play in promoting access to postsecondary education. In fact, states spend twice as much money on higher education as the federal government, most of it through operating subsidies to institutions that reduce the price of student tuition. Nearly 80 percent of students in American higher education attend state-supported institutions, a strong indicator of the success of state efforts to ensure access.

We believe states must continue to play a prominent role in ensuring access to postsecondary education nationwide. They can perform this role best by filling the "gaps" in the federal aid system caused by enrollment fluctuations, sudden price increases, or other unanticipated conditions. The failure of states to promote access would pose a major new financial burden for families and the federal government that would be virtually impossible to meet. As the principal providers of educational services in the nation, states must continue to play this critical role in postsecondary education.

The diversity of states and their unique systems of higher education prohibit the development of nationally uniform policies for state financing in higher education. However, states should consider the following recommendations in shaping their priorities and programs on behalf of their residents:

Establish a four-step collaborative accountability process that emphasizes strategic planning and mutual responsibility among financing system participants, thus promoting access.

A structured accountability process can help states better meet their fundamental responsibilities of providing postsecondary education and promoting access. To this end, state legislators, state coordinating and governing board officials, faculty, campus administrators, students, and others should participate in a strategic planning process that addresses at least four key elements. Members of this panel should:

- reach consensus on a series of future *goals* and design ways to measure success in meeting them;

WHAT IS "HIGH TUITION, HIGH AID?"

Several economists, as well as a growing number of higher education leaders, have argued that "high tuition, high aid" would be a just solution to the financing problems currently plaguing much of American higher education. Advocates of this position have argued that federal incentives should be developed to encourage states to focus their tax funds on student aid for low- and middle-income students and families, rather than continuing to provide high direct institutional subsidies, which help to reduce the tuition levels. Thus, under this concept, tuitions would increase to significantly higher levels than is currently the case in most states (high tuition), with the additional revenues derived from these higher tuitions used to pay for the increasing needs of low- and middle-income students through student aid (high aid). By increasing tuitions at state institutions the overall revenues derived can be targeted on the neediest students, thereby improving both the efficiency of the system and the access that is necessary for low- and middle-income students.

Thomas P. Wallace, President of Illinois State University, is one of the leading advocates of this theory. In testimony before the Commission, he observed, "...the most significant element of student financial aid in public higher education today is the direct state tax subsidy to public institutions; it is of greater financial importance to students than any state or federal gift aid program targeted to needy students. The public policy of direct state aid to public institutions, which currently constitutes the foundation for student financial aid, is incompatible with today's realities of providing student affordability and maintaining institutional quality."

- make available appropriate *resources* to achieve the goals;
- give institutions *autonomy* when working toward those goals;
- grant each party in the accountability process the appropriate *authority* to reach the goals.

Conduct independent assessments of the benefits of the so-called "high tuition, high aid" strategy for higher education, with no direct federal involvement.

The Commission has heard extensive testimony and conducted its own analyses of "high tuition, high aid," a widely discussed topic in higher education. This idea is based on the premise that states could lower subsidies to public colleges and universities and use the money to expand financial aid offerings. Tuition at these schools would increase sharply but so would financial aid—perhaps offering greater access to college for needy students.

After much study and discussion, we have concluded that a headlong rush into "high tuition, high aid" as a national strategy would be a mistake. We are disturbed by the troubling trends of the last two years, in which at least 10 states raised tuition but cut student aid. Despite the states' best intentions, these events are a troubling sign about the potentially damaging effects of this policy.

The available evidence also illustrates the political difficulties in achieving the goals of "high tuition, high aid." As tuition climbs higher—and the level of direct institutional aid drops—political support for student financial assistance also appears to erode. As one witness before the Commission noted, "Direct institutional appropriations can be justified on a diverse set of goals—quality, state economic development, public service, *and* access. In contrast, student aid is almost exclusively justified in terms of access." We believe the consequences of this policy—the prospect of high tuition, *low* aid—could jeopardize access to higher education in individual states as well as the nation.

Despite the recent trends, however, the Commission believes states should explore this idea when considering options to improve higher education access. Certainly, the subsidies that flow indirectly to more affluent students because of lower tuition at state colleges may be better utilized in some states through need-based aid programs. Nevertheless,

"high tuition, high aid" is squarely a state issue that should not be overtly influenced by, or promoted through, federal policy.

Increase state-funded student financial aid in proportion to increases in tuition as a way to provide access for low- and middle-income students.

Consistent with the last recommendation, we believe states that *do* decide to move toward higher tuition carry a significant burden to increase student aid at the same proportional rate. Without such action, state policy could undermine the national goal of improving access to postsecondary education for all Americans.

States have a variety of techniques at their disposal to assure consistent increases of tuition and state student aid. These range from moral suasion to formulas written into state law requiring dollar-for-dollar increases in aid. Whatever the method, it is imperative that states not perpetrate the cruel hoax of "high tuition, low aid" for poor students.

At the state level, the responsibility for this issue falls directly on those individuals and agencies who set tuition. In some states, individual institutions must undertake this responsibility, while in others the burden falls to statewide boards or legislative committees. Whoever sets tuition has the first responsibility to provide sufficient aid to needy students to offset the effects of any increases in tuition.

Participate in the State Postsecondary Review Program, as authorized under the Higher Education Act.

States should take advantage of the opportunity presented by the creation of the State Postsecondary Review Program to designate one entity to review institutional eligibility for federal student assistance programs. By offering states matching funds to help them perform this function, the program represents a unique opportunity to strengthen the partnership between the federal government and the states in improving postsecondary education access. States should utilize the federal matching funds to target institutions that have an established history of abuse of federal programs.

THE INSTITUTIONAL ROLE

The Commission believes colleges and universities should play several essential roles. These include promoting access for all interested and able students, fostering a climate that encourages the graduation of every student, and establishing a governance process that efficiently delivers programs in response to a clearly defined mission.

Institutions have long played a critical role in promoting access. This commitment has been reaffirmed in recent years as institutions have stepped up their investments in need-based aid in response to declining support from the federal government and other sources. This role is an appropriate one for institutions and should be encouraged.

While mutual accountability among financing system partners is a basic tenet of postsecondary financing policy, institutions bear a fundamental ethical responsibility to offer a quality education. As providers of education, colleges and universities must promote both effective teaching and effective learning. No government entity could ever replace the nation's postsecondary educational institutions in this process.

To this end, institutions must set clear goals and develop programs to reach these goals. If they have not already done so, institutions should engage in a strategic planning process that answers tough questions about the school's mission, strengths, weaknesses, and future vision. Institutions could conduct this strategic planning as part of their state's accountability process, which assures both mission success and effective self assessment.

Institutions—and the policymakers who directly affect them—bear a fundamental responsibility for controlling cost increases. The price charged to students needs to address clearly the central mission of the college or university and the type of students who tend to enroll in that institution. Determining whether the costs students pay are appropriate should be a central element of the strategic planning process outlined in this report.

"If there is a genuine willingness to use tax policy to craft a partnership of the corporate sector and of individual donors with educational institutions, there will be no lack of creative ways to shape tax measures beneficial to providing quality higher education to young people."

REV. J. DONALD MONAN, S.J., PRESIDENT, BOSTON COLLEGE

TESTIMONY BEFORE THE COMMISSION, MARCH 18, 1992

THE PRIVATE SECTOR ROLE

We believe business and industry should encourage and support postsecondary education and training that strengthens the nation's competitiveness and furthers democratic principles. As noted in Chapter I, the private sector already plays an important part in the postsecondary education finance system. But individual businesses often play only a limited role, supporting job training programs based on current business needs rather than promoting educational investments for long-term economic growth and productivity.

Despite their extensive commitment to specialized job training, corporations and businesses cannot play the primary role in meeting the nation's educational needs. This is because these firms cannot be assured that their investment in training is the most efficient use of their resources. For example, large companies with training programs are frequently confronted by the dilemma of employees who receive extensive training and then leave the company for another firm. And small companies face high fixed costs in designing and paying for training programs, costs which are often not justified in the returns they receive.

However, as the principal "customer" of the nation's postsecondary institutions, the private sector has a significant responsibility for, and interest in, the ability of citizens to attain a quality education. Thus business and industry should play an important partnership role, encouraging and supporting postsecondary education that contributes to economic and social advancement.

Business and industry can accomplish this by engaging in many of the programs and policies discussed previously. For example, they should take advantage of federal policies that promote greater postsecondary opportunities for their employees. This includes utilizing the tax breaks offered for employer paid educational assistance under Section 127 of the Tax Code.

Businesses also should receive tax breaks for engaging in cooperative work experience or curriculum sharing programs. These programs, which offer students the opportunity to learn first-hand about the job market and stay current in rapidly changing job fields, would help

increase the partnership between postsecondary educational institutions and the private sector. Greater understanding between an employer's needs and an institution's programs and abilities could dramatically improve the nation's productive capacity and raise the level of expertise among American workers.

THE PHILANTHROPIC ROLE

We believe philanthropy should play an important role in the education finance system—from traditional corporate and private foundations to the philanthropy of individuals, institutions and other sectors of American society. Philanthropy has long played a leading role in support of higher education as an essential national resource. We support the expansion of these efforts at all levels.

The federal government can play a critical part in such an expansion. For example, the current alternative minimum tax treatment of gifts of appreciated property should be repealed, since current law discourages people from making gifts to charitable organizations such as higher education institutions. Likewise, Congress should approve an advance valuation donation procedure for donors making gifts to charities. These and other measures would help to reduce the confusion now common in tax law and strengthen the partnerships in postsecondary financing.

Private philanthropic organizations, which already play an essential role in institutional and programmatic support, should promote policies and programs that contribute to educational equity. The role of private philanthropy in financing postsecondary education has changed dramatically in the past century, especially since World War II. Direct support for postsecondary institutions has eroded over time as organizations emphasized other worthy priorities, such as K-12 education. But private philanthropic foundations continue to be a major catalyst in efforts to promote greater opportunities for disadvantaged students. This essential work should continue.

Private philanthropy has other important roles to play in higher education. For example, community-based scholarship foundations have a substantial impact on raising aspirations and increasing postsecondary

"The challenges of the 21st century require us to prepare an educated citizenry and workforce that will be flexible, have an understanding of the world community, and be environmentally aware. For 200 years in this country, we have successfully avoided the pitfalls of a class society characterized by an elitist population with sole access to the best schools and universities. To maintain democratic opportunity, we must do all we can to broaden access to higher education to those from every segment of society."

WARREN B. ARMSTRONG, PRESIDENT,
WICHITA STATE UNIVERSITY

TESTIMONY BEFORE THE
COMMISSION, JANUARY 15, 1992

education access. We support the continued development and growth of these privately supported efforts.

Likewise, private philanthropy is essential to supporting the efforts of colleges and universities to promote equity among students. Through their support, philanthropic organizations can make a difference at the grassroots level to further national goals supported by government. This is especially true when it comes to plans for restructuring higher education and promoting effective governance practices as well as equity. We sincerely hope that these organizations will continue to play such a role in the overall strategic planning process in the years ahead.

CONCLUSION

The United States has long been recognized as providing the best, most accessible system of higher education in the world. Yet as this report—and others like it—has pointed out, the burdens of paying for college are increasing for all Americans. Based on current trends, America will face dire economic and social consequences if an ever smaller percentage of students and families can afford a postsecondary education.

The Commission believes it has developed a bipartisan, cost effective blueprint for making college affordable again. The comprehensive proposals offered in this report represent our collective views regarding this important and timely topic.

In seeking to make college affordable again, we realize that it will be difficult to measure the impact of our recommendations on access to higher education and the societal and individual benefits that come from an increasingly educated citizenry. While there is no single indicator of success, we would consider our efforts fruitful if any of several outcomes is achieved. Among the outcomes desired by the Commission are:

- increased participation in higher education by all Americans;
- a more reliable, efficient, and simplified system of financial aid;
- enhanced understanding of the mutual goals of scholarship and citizenship;

- greater investment in saving for college by students and their families;
- improved accountability and mutual responsibility among the various participants in the financing system;
- a reduction in the amount and rate of student loans defaulted.

The economic, environmental, and social challenges ahead will require cooperation among all sectors of American society—from government and industry to individuals and families. We need both the courage to dream and the will to change.

Amid global uncertainty, the nation must stand firm behind its goal of offering educational opportunity to all interested and able Americans. Only by making college affordable can our students succeed and our nation prosper during the next decade—and into the 21st century.

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IV. APPENDIX

ESTIMATES OF COST SAVINGS AND NEW EXPENDITURES RESULTING FROM COMMISSION RECOMMENDATIONS

The Commission has approached its task with the belief that the cost of failing to provide postsecondary opportunities for all individuals to the full extent of their interests and abilities far exceeds the monetary costs of increasing the national investment in postsecondary education. However, at the same time, we have been acutely attuned to the fiscal dilemmas plaguing families, the states, the federal government, and others, and therefore have constructed our recommendations with an eye toward producing effective, reasonable solutions that are financially responsible and that draw on the resources of all participants in the financing process.

The cost of implementing various proposals is largely dependent on variables not easily measured. For example, the cost of providing Pell Grants at levels already agreed upon in law depends significantly on the number of eligible grant recipients. In recent years this number has sharply increased, in part due to the economic troubles that have gripped the nation. Thus the future state of the economy is one variable that needs to be considered in estimating the costs of these recommendations.

To limit the inevitable quibbling over the "correctness" of cost estimates, we have chosen to rely primarily on cost estimates of our recommendations (or similar proposals) conducted by independent, non-partisan sources. For the most part, these calculations have been conducted by the Congressional Budget Office (CBO), the General Accounting Office (GAO), or other official federal government entities.[76] Unless otherwise noted, the calculations assume the cost of implementation in fiscal year 1994 present value terms.

We want to emphasize that these estimates are *illustrative.* The cost estimates we provide here are not definitive but rather they provide a rough sense of the total price tag of our recommendations. Downward or upward revisions of these estimates may be required as our proposals are converted to actual legislative language.

The estimates of the Commission's major recommendations, by category, are as follows:

Pell Grants

The major Commission proposal in this area calls for the funding of Pell Grants at levels already authorized in law. If this recommendation were implemented in the current fiscal year (1993), the additional cost to the federal government would be approximately $6.5 billion. This figure is based on preliminary CBO numbers calculated in 1992. The additional cost is the difference between a maximum grant award of $3,700 ($12.5 billion in budget authority with 5.2 million grant recipients) and a maximum award of $2,300 ($6.0 billion with 3.9 million recipients). The calculations assume that changes made during the 1992 Higher Education Amendments have been fully implemented.[77]

Student Loans

The Commission's proposals call for the replacement of the current bank-based federal student loan structure with a direct loan program that allows students the option of repaying their loans on an income-contingent basis through the IRS. This proposal is similar to those discussed as a part of the 1992 Higher Education Act reauthorization.

Much discussion and debate surrounded these proposals, particularly the direct lending piece. However, after several analyses were conducted by both CBO and GAO, the results were virtually identical. These analyses showed that a direct lending program could save at least $1 billion per year compared to the current guaranteed loan system when fully implemented.[78]

The most appropriate analysis of the costs of a direct lending program comparable to the one proposed by the Commission was conducted by CBO on November 15, 1991. That study estimated the cost of the 1992 Higher Education Amendments bill as reported by the House of Representatives Committee on Education and Labor on October 23, 1991. The analysis showed that phasing out the existing Guaranteed Student Loan Program (with existing loan limits) would save approximately $1.4 billion annually with the direct lending program fully implemented.

That same CBO analysis also calculated the likely increased costs of a direct loan program with higher loan limits (and no loan origination fee). While the loan limits in the House bill are not directly comparable to the Commission's subsidized and unsubsidized loan proposals, they

do provide a rough sense of the possible costs of increased loan limits. According to the CBO analysis, the annual cost of these higher loan limits would equal approximately $1.5 billion annually.

The costs or savings associated with income-contingent repayment are more difficult to measure. We assume that income-contingent repayment will result in additional budget savings because of the expected reduction in students defaulting on their loans. With default costs now totalling more than $3 billion under the guaranteed loan programs, we believe this is a significant feature of this proposal.

No official estimates of the likely savings due to reduced default levels under an income-contingent loan structure were calculated. However, several reputable analysts have developed estimates of the likely savings of income-contingent loans and have concluded that there would be an annual savings of at least $1 billion compared with current default expenditures.[79]

Loan Forgiveness for Community Service

Our recommendations also call for students to be able to serve their country by performing community service in an approved program in exchange for partial loan forgiveness. Students would be allowed to have 20 percent of their loan principal forgiven for every year of participation in the Community Service Incentive Program. Students could reduce their total federal student loan principal by up to 60 percent (a few would be offered complete forgiveness for performing five years of service in designated "critical need" areas).

The Commission on National and Community Service has estimated that the current community service infrastructure in the nation supports about 25,000 to 30,000 full-time participants. Assuming that nearly all of these slots are occupied by persons performing post-collegiate community service, and further assuming that the number of slots would double in the first year, we then can estimate the cost of our loan forgiveness proposal to the federal government. That cost would be the number of participants (50,000) multiplied by the estimated amount of loan principal forgiven. According to a 1992 study, the average indebtedness of all borrowers in 1990 was $9,744.[80] Thus the average annual amount forgiven would be about $2,000 (20 percent). This means that the estimated first-year cost of this proposal would be about $100 million.

We want to emphasize that costs are highly dependent on the number of community service program participants. Thus, depending on the number of slots available in approved programs, these cost estimates could increase or decrease significantly. Further, the costs beyond the first year are likely to be higher since community service program participants are eligible for 20 percent reduction in principal *per year* of participation.

Tax Policies

The Commission's recommendations allow for penalty-free withdrawals from IRAs to pay for higher education expenses. This provision is similar to one proposed by Senators Lloyd Bentsen (D-TX) and William Roth (R-DE) in 1992. Under that proposal, qualified higher education expenses—tuition, fees, books, supplies, and equipment—could be paid for via early withdrawal from an IRA. These funds could be used to pay for the college education of the taxpayer, his or her spouse, the taxpayer's child, or the taxpayer's grandchild.

According to the Joint Committee on Taxation (JCT), this provision would result in additional federal budget costs of approximately $100 million per year. This estimate assumes restoration of the deductibility of IRA contributions for all taxpayers, which was eliminated in the 1986 Tax Reform Act. Without the restoration of fully deductible IRAs, the budgetary effects of this provision likely would be considerably less than this amount.

Our recommendation for removing the income eligibility ceiling for taxpayers who use Series EE Savings Bonds to pay for higher education expenses is identical to a proposal supported by the JCT in 1992. According to the JCT, removing the income ceiling would spur additional savings bond sales, thus offsetting the cost of interest exclusion. The estimated cost to the federal government of this provision is less than $1 million annually, and therefore negligible for our purposes.[81]

Likewise, the JCT has also estimated the cost of allowing student loan interest to be deducted—a feature of the Tax Code that was eliminated in the 1986 Tax Reform Act. They have estimated the annual cost of this provision at approximately $200 million. And JCT estimates that the annual cost of continuing to allow deductions for employer-paid educational expenses (Section 127) also at approximately $200 million.[82]

The provision exempting scholarships and fellowships from taxation was eliminated in the 1986 Tax Reform Act. While no recent estimates of restoring this provision have been made, JCT staff estimate the annual cost at no more than $20 million, based on use patterns prior to 1986.

Finally, changing the alternative minimum tax treatment of gifts of appreciated property to charitable organizations would cost approximately $100 million.

Other Savings and Expenditures

We believe that two of our remaining proposals result in significant cost savings to the federal government. The conversion of the Federal Perkins Loan program to a grant program (and discontinuing new federal capital contributions) would save approximately $200 million a year, based on the pattern of appropriations for this program over the last decade. Further, the elimination of the Federal Supplemental Educational Opportunity Grant would save an additional $600 million annually. Combined, these program phase-outs would result in savings of about three quarters of a billion dollars.

Some additional costs would be incurred by other of our recommendations. Full funding of Title IX programs for graduate students would cost approximately $200 million. Funding of the State Postsecondary Review Program, to help combat fraud and abuse in student aid programs, would result in additional federal costs of $75 million annually. And the cost of funding the National Early Intervention Scholarship and Partnership Program would be $200 million at the maximum authorized level.

SUMMARY OF ESTIMATED FIRST YEAR COST SAVINGS AND NEW EXPENDITURES

	COST SAVINGS	EXPENDITURES
Pell Grants		$ 6.5 billion
Student Loans		
—Direct Lending	$1.4 billion	
—Increased Loan Limits		$ 1.5 billion
Loan Forgiveness for Community Service		$100 million
Tax Policies		
—Penalty-free IRA Withdrawals		$100 million
—Student Loan Interest Deduction		$200 million
—Eliminate Schol. and Fellowship Tax		$ 20 million
—Section 127		$200 million
—Gifts of Appreciated Property to Charitable Organizations		$100 million
Other Savings and Expenditures		
—Perkins Loan Conversion	$200 million	
—Elimination of SEOG	$600 million	
—Full Funding of Title IX		$200 million
—State Postsecondary Review Program		$ 75 million
—National Early Intervention Scholarship and Partnership Program		$200 million
TOTAL	$2.2 billion	$9.2 billion

NOTE: This table does not include likely cost savings due to the reduction in defaults under a loan system with income-contingent repayment as an option. While we believe significant savings will be achieved, no official estimates are available.

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SCHEDULE OF COMMISSION MEETINGS

February 26-27, 1991	***Meeting of Commission Members*** Washington, DC
May 5-6, 1991	***Meeting of Commission Members*** Washington, DC
July 14-15, 1991	***Regional Hearing and Meeting of Commission Members*** Los Angeles, California
September 11-12, 1991	***Regional Hearing and Meeting of Commission Members*** Chicago, Illinois
November 13-14, 1991	***Regional Hearing and Meeting of Commission Members*** Miami, Florida
January 14-16, 1992	***Regional Hearing and Meeting of Commission Members*** Wichita, Kansas
March 17-19, 1992	***Regional Hearing and Meeting of Commission Members*** Boston, Massachusetts
April 30—May 1, 1992	***Seminar*** Washington, DC
May 18-19, 1992	***Seminar*** Washington, DC
June 15-17, 1992	***National Symposium and Meeting of Commission Members*** Washington, DC
September 10-11, 1992	***Meeting of Commission Members*** Washington, DC
November 19-20, 1992	***Meeting of Commission Members*** Washington, DC

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3. Calculations derived from: Donald A. Gillespie and Nancy Carlson, *Trends in Student Aid: 1963 to 1983* (New York: The College Board, 1983), p. 20; Lawrence E. Gladieux and Laura Greene Knapp, *Trends in Student Aid: 1982 to 1992* (New York: The College Board, 1992), p. 7; Kent Halstead, *Higher Education Tuition* (Washington, DC: Research Associates of Washington, April 1989), p. 106–7.

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9. Another measure of the greater affordability of the 1970s compared to the 1980s and early 1990s is the "net cost." The "net cost" is essentially the actual amount that different students must pay (as opposed to the "sticker price") based on the student aid they receive. Net cost is calculated by estimating the value of the subsidy that students receive through student aid. This subsidy is then subtracted

from the sticker price in order to produce the net cost that students must actually pay.

McPherson and Schapiro calculated the net cost for students at different income levels at both public and private institutions. Their calculations indicate that the net cost that students from all income levels have paid in the last two decades has been remarkably similar. In general, most students saw their net cost decline—in some cases dramatically—between 1974 and 1979 or 1980. But since that time the net cost that all students have faced has increased in real terms. In fact, the net cost that students from any income background face are considerably higher than they were even in 1974, the "high point" of net cost in the 1970s. Therefore college has become much more unaffordable for students and their families, no matter what their income. See Michael S. McPherson and Morton Owen Schapiro, *Keeping College Affordable* (Washington, DC: The Brookings Institution, 1991), p. 34–37.

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67. The actual figure can be derived from U.S. Department of Education data. The Department already calculates one such measure of per-student expenditures, called "education and general expenditures" (E&G). E&G expenditures are a measure of the costs that are directly attributable to the educational process, such as instruction, research, student services, libraries, etc. E&G expenditures generally exclude other expenditures of colleges and universities, such as those used to support hospitals or auxiliary enterprises. Further refinement of this figure is possible. For example, the costs of research or other items sometimes not considered as fully attributable to the education process could be removed from the calculation.

68. This means that there is a growing gap between what Congress and the President have approved as the maximum grant that students should receive and the amount they actually appropriate to pay for those grants.

69. This figure is actually the national *average* cost of attendance at public four-year colleges. The U.S. Department of Education currently does not calculate the median cost; however, this figure can be easily derived from existing data.

70. The percentage should be based primarily on the level of indebtedness. Our analyses suggest that the percentage should be no less than 3 percent and no more than 8 percent of adjusted gross income.

71. Once the conversion takes place, however, the borrower cannot return to conventional repayment. This feature helps to prevent "gaming" of the system by unscrupulous borrowers.

72. For non-collegiate students, existing loan limits under the Stafford program would continue to apply.

73. In the current student loan system, undergraduate students may borrow up to $23,000 in Stafford loans, $23,000 in SLS loans, $23,000 in unsubsidized loans, and $20,000 in Perkins loans (for most borrowers). Thus our combined cumulative borrowing maximum does not vary significantly with those in existing programs.

74. A study of reasonable parent loan indebtedness could be conducted by the Secretary of Education.

75. The subsidized loan maximum should equal the borrowing limits under both the Stafford and Perkins loan programs.

76. The calculations performed by both of these organizations were largely conducted as inputs during the 1992 reauthorization of the Higher Education Act. No endorsement of, or support for, the Commission's recommendations should be inferred from these cost estimates.

77. Unpublished estimates provided by the Congressional Budget Office.

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